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# **MANUAL OF POLITICAL ECONOMY.**



MANUAL  
OF  
POLITICAL ECONOMY

BY

THE RT HON. HENRY FAWCETT, M.P. D.C.L. F.R.S.

//  
FELLOW OF TRINITY HALL, AND PROFESSOR OF POLITICAL ECONOMY  
IN THE UNIVERSITY OF CAMBRIDGE.

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## PREFACE TO THE SIXTH EDITION.

**I**N preparing this edition I have not thought it necessary to alter in any material respect the general arrangement of the book. Care, however, has been taken to adapt the illustrations, as far as possible, to the circumstances of the present time.

I cannot place too high a value upon the assistance which I have derived from my wife. In the course of revising the book, she has made many most valuable suggestions, and she has also prepared an Index which I believe will be found very useful by the reader.

I also desire to thank my private secretary, Mr F. J. Dryhurst, for having carefully revised the proofs as they passed through the press.

*August, 1883.*

## PREFACE TO THE FIRST EDITION.

**I**T has been often remarked that Political Economy is more frequently talked about than any other science, and that its principles are more frequently appealed to in the discussions of ordinary life. No science, however, is perhaps more imperfectly understood. Profound mathematicians, or accomplished geologists and botanists, are far more numerous than real masters of the principles of Political Economy. Such a fact is somewhat surprising, when it is remembered that Political Economy must be appealed to, in order properly to discuss almost any political, financial, or social question. Sometimes it has no doubt happened, that people have not become generally familiarised with a science, because its principles have not been clearly explained. But Political Economy has never wanted able expounders. Adam Smith wrote the first systematic treatise on the subject, and his work will long continue to be read as a masterpiece of clear exposition. Mr John Stuart Mill's treatise on 'The Principles of Political Economy' is perhaps the most remarkable work of that great author, and the book will be remembered as amongst the most enduring literary productions of the nineteenth century. It is therefore necessary for me to explain the object I have had in view in writing the present work.

The end I hope to attain, I may briefly state to be this. I think that all who take an interest in political and social questions, must desire to possess some knowledge of Political Economy. Mr Mill's treatise is so complete and so exhaustive, that many are afraid to encounter the labour and thought which are requisite to master it; perhaps, therefore, these may be induced to read an easier and much shorter work. I so well remember the great advantage which I derived from reading Mr Mill's book, that I would not publish my own work if I thought that it would withdraw students from the perusal of a more complete treatise. I am, however, convinced that those who become acquainted with the first principles of Political Economy, will be so much struck with the attractiveness and importance of the science, that they will not relinquish its study.

I have not attempted to discuss all the principles of Political Economy in full detail; but I believe no important branch of the subject has been omitted; and I therefore think that the principles which are explained in the present work will enable the reader to obtain a tolerably complete view of the whole science. In order to show how intimately Political Economy is connected with the practical questions of life, I have devoted a separate chapter to some subjects of great present interest; such, for instance, as Cooperative Societies—Strikes and Trades' Unions—and The Effects of the Recent Gold Discoveries. For the convenience of the ordinary reader, and especially for those who may use the book to prepare themselves for examinations, I have prefixed a very detailed summary of Contents, which may be regarded as an analysis of the work.

I cannot conclude these prefatory remarks without acknowledging the kind assistance which I have derived from those who have verified my statistical facts; but I have especially to thank my friend, Mr Leslie Stephen, Fellow of Trinity Hall. He has given me many most important suggestions, and has carefully revised the work: the accurate and complete knowledge which he possesses of the science makes his revision peculiarly valuable.

The labour of writing these pages would have been much greater, if I had not been fortunate enough to have a most patient and excellent amanuensis in the youth who is to me so faithful an attendant.

TRINITY HALL, CAMBRIDGE,  
Feb. 1863.



# CONTENTS.

## BOOK I.

### PRODUCTION OF WEALTH.

#### CHAPTER I. *Introductory Remarks.*

In an introductory chapter it is better to give a general description of Political Economy, rather than to attempt an accurate definition of the science—Political Economy investigates the laws which regulate the production, the distribution, and the exchange of wealth—Popular prejudice considers that Political Economy is hard-hearted and selfish—This fallacy explained and refuted—Any commodity which has an exchangeable value is wealth—The civilisation of a country determines to what extent its natural resources can be classed as wealth—Fallacies now known as the Mercantile System explained .....PAGES 3—9

#### CHAPTER II. *The Requisites of Production.*

The production of wealth has three requisites: land, labour, and capital—Capital defined to be wealth which is saved, and applied to the future production of wealth ..... 10—11

#### CHAPTER III. *Labour as an Agent of Production.*

The simplest commodity cannot be made available for consumption without the application of many different kinds of labour—All labour does not contribute to the production of wealth—Hence labour is classed as productive and unproductive—Labour is productive when it either directly or indirectly embodies utilities in material objects—The most useful labour may be sometimes unproductive—As an example, a railway may be partly made and never opened—Labour which is unproductive may yet be very useful—Mr Mill's definition of productive labour would make the labour of the schoolmaster to be unproductive, and this may be obviated by a wider definition—Consumption also may be either productive or unproductive ..... 12—16

#### CHAPTER IV. *Of Capital.*

It is sometimes fallaciously supposed that capital consists of money, to the exclusion of any other kind of wealth—The entire capital of the country can never be simultaneously employed—A most useful commodity, such as wheat, need not necessarily be employed as capital—

An individual does not increase the capital of the country by spending wealth upon his own enjoyments—hence, the man who saves, and not the spendthrift, is the labourer's best friend—This consideration is expressed in too paradoxical a form when it is asserted that a demand for commodities is not a demand for labour—The Science of Political Economy often only affirms tendencies, and therefore the results deduced from its principles do not always come into immediate operation—It is fallacious to suppose that there can be a glut of capital, and that consequently, without the unproductive expenditure of the rich, the poor could not be adequately employed—Wealth can only perform the functions of capital by being wholly or partially consumed—Foregoing principles illustrated by examples—The rapidity with which a country recovers from a devastating war explained—The consequences of raising revenue by loans investigated—The effects of loans and taxation compared, with especial reference to India—The distinction between circulating and fixed capital—The former is consumed by a single use, the latter may continue to perform its functions for a long period; food consumed by labourers is circulating capital; whereas fixed capital consists of machinery, buildings, railroads, &c.—The conversion of circulating into fixed capital may temporarily injure the labourers, and may in certain cases permanently injure some classes of labourers.

PAGES 17—43

## CHAPTER V. *On the Productive Power of the Three Requisites of Production.*

Political Economy would embrace a great number of sciences, if it investigated all the causes upon which depend the productiveness of land, labour, and capital. Hence a definition of Political Economy is required, in order that some limit may be placed upon the scope of the science—The most fertile land may be unproductive of wealth—The chief causes which determine the productiveness of labour—The fallacy of estimating the productiveness of capital by the profits realised—All questions relating to profits concern the distribution and not the production of wealth—Division of labour makes labour far more productive—This proved by Adam Smith's illustration with regard to pin-making—He thinks that division of labour increases its productiveness, for the three following reasons: 1st. The dexterity of the workman is increased; 2nd. Time is saved if the workman does not pass from one employment to another; 3rd. When industry is divided into special processes, suitable machinery is more likely to be invented and applied—The first of these three causes produces the principal effect—Many writers think that Adam Smith attributes too much importance to the second cause—The application of machinery often enforces a certain division of labour—Mr Babbage has shown that Adam Smith has not pointed out that labour is economised when divided, since each workman can be solely employed upon the work for which he is best qualified—The demand for a commodity determines the extent to which division of labour can be carried—The combination or cooperation of labour is essential to its efficiency—Mr Wakefield has classified the cooperation of labour as simple and complex—The first occurs when several workmen combine to do the same thing—The second when one industry is assisted by another—Mr Wakefield explained the mischief of permitting a young colony

to be occupied by scattered settlements: the growth of the town population ought always to be encouraged—Mr Wakefield's theory of colonisation corroborated by the effects of the gold discoveries in Australia—There cannot be cooperation between different industries, unless the means of communication are good—Division of labour is an instance of the complex cooperation of labour..... PAGES 44—62

## CHAPTER VI. *Production on a Large and on a Small Scale.*

The advantage of producing on a large scale becomes greater as the use of machinery is extended—This is exemplified at the present time in the increasing size of our manufactories and warehouses—The extent of the demand must influence the scale of production—The advantages and disadvantages of the joint-stock principle—Joint-stock companies are very beneficial to a country—Farming on a large and on a small scale compared—The increased use of machinery in agriculture makes farming on a large scale more advantageous—Why small farming is beneficial in certain special cases, such as dairy farming..... 63—70

## CHAPTER VII. *On the Laws which determine the Increase of Production.*

If we suppose the agents of production to be in their most efficient state, then the production of wealth cannot be increased, unless either land, labour, or capital, is increased—In the absence of agricultural improvements, more land is not brought into cultivation, unless the value of agricultural produce is increased; this proposition is the basis of Ricardo's Theory of Rent—In Political Economy, the fertility or productiveness of land varies inversely with the amount of labour and capital which is required to make its produce available for consumption—As the population of the country increases, unless the additional food required can be obtained by foreign importation or by improved agriculture, less fertile land has to be cultivated, and therefore agricultural produce has a tendency to become more expensive, as population advances—England exemplifies the practical importance of employing the word 'tendency' when enunciating a proposition in Political Economy, since the rise in the price of wheat, which would accompany the present increase in her population, has been counteracted, partly by agricultural improvements, but principally by foreign importations of corn, consequent on Free Trade and improved means of transport—A rise in wages usually accompanies an increased demand for labour; this rise in wages creates an increased supply of labour by discouraging emigration, and by encouraging marriages amongst the poor—Meat and dairy produce must rise in price as the population of a country increases, as long as these commodities are difficult and expensive to import from a distance ..... 71—80

## CHAPTER VIII. *On the Increase of Capital.*

An increase of capital implies increased saving—Two principal motives induce saving: 1st, a prudent foresight with regard to the future; 2nd, a desire to make wealth by an advantageous investment—The

first motive operates with regard to the bulk of the capital accumulated; but upon the second motive depend the fluctuations in the amount of this capital—In Political Economy, as in Mathematics, the causes which produce fluctuations and disturbances often create phenomena which are independent of causes more constant in their effects—Each class of society has a recognised standard of living; if, therefore, the commodities of ordinary use are cheapened, a greater amount of capital will be saved—A large portion of the capital saved in England is invested in foreign countries; consequently, by checking the amount sent abroad, an amount which is practically unlimited may be obtained for any eligible home investment—Different consequences produced by the raising of loans in countries which do not export capital—This illustrated by the effect produced in France by the loans raised in France in consequence of the Franco-German war—The economical condition of England and India contrasted; the former requires cheap food; the latter, capital—How India may be economically benefited by England's rule—The West Indies neither want land nor capital, but are deficient in labour—The objection to the Coolie traffic—The striking feature of America's economical condition is the comparative dearthness of labour, and the comparative cheapness of land—Why high farming is not remunerative in America—Commerce between England and America must be especially beneficial to both countries.

PAGES 81—92

## BOOK II.

### DISTRIBUTION.

#### CHAPTER I. *Private Property and Socialism.*

The distribution of wealth implies the existence of rights of property, and the rights of property cannot be maintained without law—Property has not the same rights in one age or country as in another; for instance, the privilege of entailing property may exist in one age, but not in another—Men may determine according to what laws wealth should be distributed, but from any particular method of distribution certain consequences must inevitably follow, and it pertains to Political Economy to investigate these consequences in each particular case—If private property is permitted, there must ensue great inequalities in wealth; this fact has suggested socialism—Socialism, therefore, as far as possible, limits the rights of private property—The impracticability of socialism in the present state of mankind explained—The two schemes of socialism which have received the greatest attention are those of St Simon and Fourier—These two schemes explained, and their impracticability pointed out—The scheme of Fourier is the most skilfully designed—The schemes of Fourier, St Simon, and Robert Owen, were voluntary in their character—Cooperation is one of the most favourable results of these schemes—The influence of the State is sometimes used to enforce a form of socialism upon the country, *e.g.* the Poor Law—Compulsory socialism is open to objections that do not apply to voluntary socialism—Free education and the nationalisation of the land would be cases of compulsory socialism..... 95—105

## CHAPTER II. *The Classes among whom Wealth is distributed.*

Wealth is distributed between rent, wages and profits: these three shares represent respectively the value of the services rendered to the production of wealth by land, labour and capital—In England, rent, wages and profits are generally received by distinct individuals, termed landlords, labourers and employers—Two of the portions or even the three portions into which wealth is distributed, may belong to one individual; this illustrated by the case of a peasant-proprietor—The laws which regulate the distribution of manufactured produce are similar to those which apply to agricultural produce—The distribution of wealth is regulated either by competition or custom; as a nation advances, custom shows a greater tendency to succumb to competition—Labourers not injured by competition.....PAGES 106—112

## CHAPTER III. *Rents as determined by Competition.*

Origin of Rent—Statement and proof of Ricardo's theory of Rent—Dr Whewell's objections to this theory—How rents are affected by various circumstances, such as the following: a reduction in the average rate of profit; the introduction of improved implements; increased importation from other countries; a rise in agricultural wages—In what sense the interest of the landlord is opposed to that of the farmer and labourer—Rents may be raised more by an increase of population than by any other cause—The profit arising from capital spent in improving land, is rent—The drainage companies—Rent is not an element in the cost of producing food .....113—128

## CHAPTER IV. *On Wages.*

Wages are determined by a ratio between capital and population—Controversy on the wages fund theory—In opposition to those who contend that there has been no improvement in the condition of the labourer during the last forty years, when there has been a great increase in the production of wealth, facts are adduced to show that his condition has decidedly improved—The diminution in cost of living enables a period of trade depression to be more easily tided over—Why the condition of the labourer has not more improved explained—The influence on wages of an increase of population, of an extended use of labour-saving machinery, and of an export of capital—Malthus's *Essay on Population* affirms that checks on population are positive and preventive—The five causes which, according to Adam Smith, produce different rates of wages in different trades—An explanation of the different rates of wages in the same employment in different localities illustrated by the difference in agricultural wages in Dorsetshire and Yorkshire—With an advance in education and improved means of communication this difference in wages tends to diminish—How wages are affected by good and bad trade.....129—155

CHAPTER V. *Profits.*

Profits are composed of the three following elements: interest on capital; compensation for risk; wages of superintendence—Each trade has a certain rate of profit peculiar to itself—This is termed the natural rate of profit—The profits realised in each trade constantly approximate to the natural rate—How profits are restored to the natural rate when they are temporarily raised above it or depressed below it—The causes which determine the general average rate of profit—In what sense Ricardo's proposition is true, that the rate of profit depends on wages—The rate of profit really depends upon the cost of labour—The high rate of profit prevailing in Australia explained—Cost of labour is a function of the three following variables: the efficiency of labour; the amount of wages estimated in produce; and the cost at which this produce can be purchased—The effect of each of these three causes upon the rate of profit illustrated—Capitalists and labourers are both benefited by an increase of the efficiency of labour and by a diminution of the cost of the necessaries of life—The benefit to the labourer will only be temporary if an increase of population is stimulated—The influence exerted on profits and wages by the export of capital .....PAGES 156—179

CHAPTER VI. *Peasant Proprietors.*

Distinction between a peasant-proprietor and a small tenant-farmer—When land is rented, large farms are more advantageous in England than small farms—Peasant proprietors of Flanders and Norway—The testimony of Arthur Young, Mr Thornton and others, concerning peasant-proprietors—The aggregation of land in England is promoted partly by artificial and partly by natural causes—The effects of the laws of primogeniture and entail considered, also the influence exerted by the costly system of conveyancing—The effect of the law of entail has been modified by the Settled Land Act of 1882—The social effects of peasant-proprietorship considered—The condition of our own agricultural labourers and that of the peasant proprietors of the Continent contrasted—Mr Jones's opinion refuted, that peasant-proprietors are imprudent with regard to marriage—It is erroneous to suppose that the advocates of the system of peasant properties desire the introduction of the French law of compulsory subdivision—The combined advantages resulting from large farming and peasant properties may be secured if land is owned and cultivated by associations of labourers—The emancipation of the serfs in Russia will extend upon a vast scale the system of peasant properties—The land reforms, carried out in Prussia by Stein and Hardenberg, quoted to show the advantages Russia may anticipate from the emancipation of her serfs—The Irish Land Act, 1881, is likely to effect a great improvement in the character of the Irish peasantry by conferring on them certain proprietary rights in the land they cultivate—Interference between landlord and tenant is to be justified on grounds of public interest rather than as giving protection to a special class of traders—The probable effects on English and Scotch agriculture of the Agricultural Holdings Bill, 1883 .....180—202

## CHAPTER VII. *Metayers and Cottiers, and the Economic aspects of Tenant-Right.*

Metayer and Cottier tenancy described—In the metayer tenure the rent paid is always a fixed portion of the produce, but not always one-half—In Tuscany the metayer rent is two-thirds of the produce—The metayers who cultivate the most fertile land enjoy a beneficial interest—Fixed customs regulate the conditions of the metayer tenure, although these conditions vary in different countries—The contradictory opinions with regard to the effects of metayer tenure explained—Why metayer farming is bad in France and extremely good in Italy—The condition of Irish cottiers most deplorable—Cottier rents are regulated by the competition of population, and are therefore often so high that they can never be paid—The Irish tenure termed 'conacre' explained—The Ulster tenant-right is a premium paid for the good-will of a farm by the incoming to the out-going tenant; tenant-right is also often understood to mean compensation for unexhausted improvements—The Irish Land Acts of 1870 and 1881—Tenant-right in England—Permissive tenant-right was sought to be established in England by the Agricultural Holdings Act 1875—Tenant-right, especially in such a country as England, is chiefly to be justified not on the ground of protection to tenants but that the public are interested in the more efficient cultivation of the soil which is thus promoted—Agricultural Holdings Act 1883..... PAGES 203—222

## CHAPTER VIII. *National Education and other Remedies for Low Wages.*

The average wages are determined by a ratio between capital and the number of the labouring population—If this ratio remains constant, wages cannot be increased, unless profits are diminished, or labour is made more efficient—Any advance in wages in a particular trade, which reduces the profits of that trade below the current rate, cannot be permanent—A law to regulate wages must either be mischievous or nugatory—Equally unsatisfactory results would ensue if the length of a day's work were regulated by law—Associations of labourers when carrying on business on their own account have an opportunity of showing whether men who now suffer from excessive employment could do as much if they worked a smaller number of hours each day—The State cannot find work for all the unemployed, unless population is restrained by law—No remedy for low wages can exert any decided permanent influence unless it increases the efficiency of labour and improves the social and moral condition of the labourers—Hence National Education is not only the most effectual but also an essential remedy—Since the introduction of National Education there has been a considerable decrease in crime, pauperism and drunkenness—Explanation of the way in which education directly increases the efficiency of labour—Emigration may be a most efficient remedy for low wages—The advantages resulting from the allotment system—The enclosure of commons has often inflicted great injury not only on the poor but also on the general public—These enclosures ought generally in

future to be resisted—The test of the efficiency of any means of raising the condition of the poor is this: Will it tend to make the poor ultimately rely more upon self-help? ..... PAGES 223—237

## CHAPTER IX. *Trades'-Unions and Strikes.*

An explanation of the functions of a trades' union—Trades' unions produce their greatest effect upon wages if they restrict the number of workmen employed in a trade—This is attempted to be done by limiting the number of apprentices—Such restrictions, if carried into effect, inflict great injustice on the labouring class; they also raise the price of commodities, and may jeopardise the existence of an industry—As an example of this, the effects of the trades' unions at Birmingham may be quoted—Trades' unions not necessarily connected with strikes—Workmen have a right to combine and to join a strike if they use neither intimidation nor violence in support of their combination—The majority of intelligent artisans are in favour of trades' unions—Their effect on wages described—They could exert no influence on wages if the effect of competition were instantaneous—But competition acts slowly, and in some cases, as with the wages of some agricultural labourers, it is neutralised for an indefinitely long period—Wages are fixed in the same way as a bargain carried on by the buyer and seller of a commodity—In order to improve their position in adjusting this bargain, employers and employed form combinations with others of their class—They are thus placed in a position of equality—Bargaining implies antagonism of interest—As long as wages are fixed by a bargain, strikes will continue to occur, because in settling the terms of a bargain it must often happen that one party will refuse to accept the price offered by the other—Conciliation and arbitration are not effectual remedies for strikes, because they do not remove the antagonism of interest between employers and employed—This is effected by copartnerships—The principle of copartnership defined—Its benefits extend both to employers and employed—There are many collateral advantages connected with copartnership—It has been adopted with great success by M. Leclaire and others—It is well suited to agriculture—The experiment of Lord George Manners at Newmarket—The progress of the movement will be greatly assisted by national education ..... 238—254

## CHAPTER X. *Cooperation.*

Cooperation exists in its complete form, when labourers supply the capital which their industry requires—Many of the so-called cooperative stores are not truly cooperative, because they distribute the profits between the shareholders and the customers, and give no portion of them to labour—The origin of the cooperative movement in England—The history of the Rochdale Pioneers' store—In the Rochdale store the ordinary retail prices are charged, and the profits are distributed among the customers in proportion to the amount of their purchases at the end of each quarter—In the Civil Service stores the customers receive their share of the profits by being charged a reduced price for



goods—Cooperative stores give no credit—Great advantages result from this—The Wholesale Society was established to supply goods to cooperative stores—This society manufactures many of the goods it sells—Cooperative production—The progress of cooperative cotton mills—The question of the right of labour to a share in the profits of cooperative societies is still unsettled—It is much easier to apply co-operation to distribution than to production—Cooperative production has been carried out on a larger scale in Paris than in England—Advantages of applying cooperation to agriculture—The late Mr Gurdon's cooperative farms at Assington—Cooperative banking—A description of the cooperative banks in Germany founded by M. Schulze-Delitzsch—The legislative enactments which have impeded cooperation in England—A description of some undertakings which are partly cooperative in their character, such as building societies...PAGES 255—278

## CHAPTER XI. *State Socialism and the Nationalisation of the Land.*

The characteristic of modern socialism is its reliance on the State—Schulze-Delitzsch and Lassalle the founders of two opposite schools of social reformers—Schulze-Delitzsch advocates schemes based on self-help such as cooperation—Lassalle is the advocate of increased State assistance—He was the founder of the International—The most important scheme of State socialism is the Nationalisation of the Land—Special attention has lately been directed to the subject in England by Mr Wallace's and Mr Henry George's books—The difference pointed out between the State re-appropriating land which it had relinquished and retaining possession of existing rights—This illustrated by permanent settlement in India—The importance of the State not surrendering the whole of its proprietary rights in the land—This illustrated by land sales in Australia—If nationalisation carried out on the plan of giving no compensation or inadequate compensation the scheme is unjust—If full compensation were given great pecuniary loss would result which would have to be borne by general body of tax-payers—Nationalisation involves this dilemma—If the land were let at less than market price then an unlimited opportunity would be offered for State favouritism; if the market price is charged the cultivators would not be benefited—Reasons against State appropriation of the unearned increment in the value of land—The policy of the Government undertaking the construction of public works considered, with special reference to India and to France—Harm would be done to cooperation if cooperative institutions obtained State loans—Some of the disadvantages pointed out of using public funds for the creation of a class of peasant proprietors—The effects likely to be produced by the State or municipality undertaking to erect houses for the working-classes—Among other disadvantages it would discourage the efforts the working-classes are now making to supply themselves with better houses through the agency of building societies—The scheme of Prince Bismarck for providing insurance and annuities for workmen by a special tax upon employers—This tax must either wholly or in large part ultimately fall upon the employed—Therefore the scheme is one of compulsory insurance—The disadvantages of compulsory thrift—The State may legitimately offer facilities for saving, but any institution, such as the Post Office Savings' Bank, should be self-supporting—It is not safe to condemn a scheme because it is socialistic

—Thus the English poor-law is based on socialism but its abolition would bring into operation worse evils than those which are caused by a poor-law when properly administered—The reasons against free education ..... PAGES 279—300

## CHAPTER XII. *On the Economic Aspects of Slavery.*

*Owing to the termination of the American War many remarks made in this chapter are no longer pertinent to the present time. It has however for various reasons been thought desirable not to omit the chapter.*

Slaves are a portion of the cultivator's capital; hence, in slave cultivation, the produce is distributed between rent and profits—The ultimate abolition of slavery chiefly turns upon economic considerations—The late Professor Cairnes, in his work entitled "The Slave Power," affirms that slave-labour has the three following defects: it is given reluctantly; it is unskilful; it is wanting in versatility—The consequences of these defects traced—Slave-labour can only be profitably employed when labour can be concentrated—No skilled labour can be carried on by slaves—Mr Olmstead's testimony—No parallel between the condition of slaves in Greece and the slaves of the present day—Slave-labour impoverishes the soil, hence fertile virgin soils are required—The acquisition of new territory is therefore indispensable to slavery—Slavery will gradually cease to be profitable, and therefore will be ultimately exterminated if restricted to a definite area ..... 301—308

## BOOK III.

### EXCHANGE.

#### CHAPTER I. *On Value and Price.*

Why it is advantageous to discuss the production and distribution of wealth, before considering the exchange of wealth—Value and price defined—Value is a relative expression, and implies comparison—Price is the value of a commodity estimated in money—There cannot be a general rise in values, but there can be a general rise in prices—When the value of one commodity is compared with that of another, it is always done by comparing their prices—Hence we depart from the method usually pursued, and proceed at once to consider the laws which determine the price, and not the value, of commodities—The assumption is in the first instance made, that any alteration in the price of a commodity is not produced by a change in the value of the precious metals ..... 309—314

#### CHAPTER II. *On the Causes which Regulate the Price of Commodities.*

Commodities, when their price is investigated, are divided into three classes: the first class comprises those commodities whose supply is absolutely limited; the second class comprises those commodities which become more expensive as their supply is increased; the third class

embraces those commodities whose supply can be increased without their becoming more expensive—Articles of virtue, agricultural produce, and manufactured produce, are representatives of these three classes—The laws of price which apply to the first class illustrated by considering how the price of one of Turner's pictures is determined; it would be usually said that the price of such a picture is regulated by a ratio between the demand and the supply—This is erroneous; the price must be such as to equalise the demand to the supply—'Effectual Demand' defined—Value is composed of two elements; represented by value in use, and by the difficulty of obtaining an article—These elements symbolised by letters U and D—No article can have an exchange value unless U and D are both present—The price of almost every commodity depends upon D, the element U being only partially operative—U exerts its full influence with regard to those commodities which are comprised in the first class above enumerated

PAGES 315—321

### CHAPTER III. *On the Price of Agricultural and Mineral Produce.*

The price of agricultural produce must be such as to give the farmer the ordinary profit for his capital and for his labour of superintendence—If, therefore, the rent of land increases without a diminution in the farmer's other expenses, the price of agricultural produce must rise in order that the farmer may be compensated—Ricardo's theory proves that rents must rise if, as population increases, worse land has to be cultivated; but if rents rise, the price of agricultural produce must rise—The land which is on the margin of cultivation only pays a nominal rent; and the price of agricultural produce must be always such as to give the ordinary rate of profit for cultivating this land—From this last proposition it follows that the price of agricultural produce is not affected by the payment of rent, but by the demand for agricultural produce, since the demand determines how far the margin of cultivation must descend—The rise in the price of agricultural produce consequent on an increase in population may be counteracted either by agricultural improvements or by the importation of corn—The price of mineral produce is regulated by laws similar to those which determine the price of agricultural produce—A commodity is said to be at its natural price, when its price is such as to equalise the supply to the demand—The natural price denotes a position of equilibrium—A parallel drawn between this position and the elliptic planetary orbits—An increase or decrease in the demand does not necessarily produce a *proportionate* increase or decrease in price—Under certain circumstances an increase in the demand, say of 10 per cent., may produce a rise in price of 50 per cent.—This circumstance explains the great rise in the price of coal—The extremely heavy burden cast upon the community by this rise in the price of coal—The proprietors and lessees of coal-mines probably gained not less than 40,000,000*l.* a year at the expense of the general consumer—Increased economy in the use of coal is the only compensation which the nation can derive from this rise in the price of coal—The great rise in the price of coal was succeeded by a fall—The causes of this fall examined—The fall was partly due to a general depression of trade, and partly to the increased production of coal, stimulated by exceptionally high profits and wages ..... 322—332

## CHAPTER IV. *On the Price of Manufactured Commodities.*

Why the laws of price which apply to agricultural produce do not apply to manufactured produce—An increased demand for a manufactured commodity may economise some of the processes of manufacture and thus diminish the price of a commodity—This illustrated by Mr Thompson's invention for boat-building—The competition of capital causes a certain average rate of profit to belong to each branch of industry—Hence the price of a commodity must have a constant tendency to be such as to give this particular rate of profit—Consequently the price of a manufactured commodity constantly approximates to its cost of production—Cost of production includes the profits of the producer—Sudden fluctuations in the demand or supply may cause the price of a commodity to vary greatly from its cost of production—These variations in price, though great, are, however, only temporary, since the competition of capital is constantly tending to make the price again equivalent to the cost of production—This illustrated by an example of a sudden demand for rifles—There is a constant tendency in operation to equalise the demand for a commodity to its supply, both when the price of the commodity is regulated by its cost of production, and when its price is disturbed by sudden fluctuations in the demand and supply..... PAGES 333—344

## CHAPTER V. *On Money.*

Why we discussed the price of commodities before we considered the subject of money—Money provides a medium of exchange, thus obviating barter, and money also serves as a general standard of value—It is not necessary, but it is most convenient, that money should be made of the precious metals—Any substance may be chosen as a general measure or standard of value; if wheat was thus selected, the price of all commodities must be estimated in wheat—The substance which is chosen as money ought, as far as possible, to possess the following qualities: its value should be uniform; it should possess an intrinsic value of its own; it should contain a great value in small bulk—Gold and silver do not vary much in value, because the cost of obtaining these metals is not liable to any great changes, and, except on rare occasions, the supply of these metals is not subject to sudden fluctuations—The quantity of gold and silver which is used for other purposes besides being coined into money is comparatively small, and therefore the quantity of gold required for such purposes does not vary greatly—Gold and silver have always possessed an intrinsic value of their own, since no other substances are so well qualified for ornaments; the brightness of these metals gives them beauty; they can be long preserved, and their malleability makes them easily worked into artistic forms—These metals have always been scarce—Hence they possess the third requisite for money, since they contain great value in small bulk—Copper money is used for the convenience of making small payments—The inconvenience of a double standard or bi-metallism—If gold and silver are both made a standard of value, then this standard is subject to increased variations—The arrangements adopted by our own Mint explained—Gold is in our own country the only standard of value, since silver and copper money are merely made subsidiary coins ..... 345—357

CHAPTER VI. *On the Value of Money.*

'Value of money' is an ambiguous expression.—It is popularly used to describe the current interest, as represented by the Bank rate of discount.—In Political Economy value of money means the purchasing power of money.—Hence the value of money increases as general prices decline, and *vice versa*.—The value of gold in bullion must be the same as the value of gold when converted into money.—The fallacy of considering that the value of gold has remained unchanged, because the price of gold never varies.—The value of money is determined by the same laws as those which regulate the value or price of all mineral produce.—Gold is devoted to two distinct purposes: first, it is coined into money; secondly, it is employed for purposes of art and manufacture.—The quantity of gold required for the last of these two purposes does not vary greatly from year to year.—Hence any increase in the quantity of gold produced must be almost entirely converted into coin.—The amount of money any country requires partly depends upon the amount of its wealth, and partly upon the number of times which any commodity is bought and sold for money.—The amount of money which a country keeps in circulation is no accurate measure of its national wealth.—A country requires a greater amount of money in circulation as its wealth and population increase.—In the case of an ordinary commodity, the demand is equalised to the supply, by either a rise or fall in the price of the commodity.—But the price of gold is a meaningless expression; hence, in the case of money, the demand is equalised to the supply by a rise or fall in the value of the precious metals.—The demand for a commodity varies with its price, but the ratio of this variation cannot be precisely defined, for it varies greatly with different commodities.—This last proposition illustrated by examples.—The demand for the precious metals varies, *ceteris paribus*, precisely in the inverse ratio of their value, if uniformity in general prices is preserved.—If we suppose that the precious metals are solely employed as money, a nation has a demand for a greater or less amount of money, in order to maintain general prices unchanged.—Hence, if the wealth and population of a country increase, the demand for money will increase.—It is most important that the value of gold, or, in other words, that general prices, should fluctuate as little as possible.—The supply of gold is *ceteris paribus* increased if the value of gold advances, because gold-mining becomes more profitable.—But an increase in the value of gold is caused by a deficiency in its supply.—Hence an increased demand for gold stimulates an increased supply; consequently the demand is equalised to the supply, and thus a tendency is brought into operation to preserve uniformity in general prices.—This process of equalisation is analogous to that which takes place with regard to every other commodity.—In the absence of any counteracting circumstances, the value of the precious metals must increase if the cost of obtaining them is increased, and *vice versa* their value must decrease if the cost of obtaining them is diminished by the discovery of more productive mines ..... PAGES 358—373

CHAPTER VII. *Foreign Commerce or International Trade.*

Foreign commerce enables the capital and labour of a country to be applied to those branches of industry for which it possesses special advantages.—The advantages of foreign commerce were while the

mercantile system prevailed estimated by the amount of money brought into the country—Hence exports were encouraged by bounties and various restraints were imposed upon imports—A system of protection was the natural development of the mercantile system—If two countries produce commodities at a different relative cost, foreign trade becomes profitable to them both—Hence, it is possible that foreign trade may be profitable to two countries, although all the commodities exchanged might be produced cheaper in one country than in the other—The bargain of international trade is adjusted by equalising the supply of a commodity to the demand for it—The profit arising from foreign commerce is shared between two trading countries in the inverse ratio of the demand which each has for the commodities imported from the other—If England exports iron to France, and imports wheat, and if the cost of producing iron is cheapened in England, but not in France, the terms of the international trade must be again adjusted, so as to equalise the demand to the supply—It is quite possible, under the circumstances just supposed, that the cost to France of the iron she imports may be reduced by an amount exceeding the diminution in the cost of producing this iron in England—The gain which results from international trade is distributed amongst the consumers of the commodities imported, and cannot be appropriated, either by the producers of exported commodities, or by the merchants who carry on foreign trade—Foreign trade will generally cause the price of a commodity which is exported to rise in the home market—The home producers of a commodity may temporarily suffer loss, if the price of a commodity is reduced in consequence of foreign importations—But inequalities in the rate of profit in any industry will always be ultimately removed by the competition of capital—The rent of land may be permanently reduced, if agricultural produce is cheapened by foreign importations—Foreign trade affects the price, both of the imported and exported commodity—The equation of international trade, therefore, requires a very complicated process of adjustment, since the price both of the imported and exported commodity must be such as to equalise the supply to the demand for these commodities in both the trading countries—Foreign commerce raises the price of the commodities exported, and reduces the price of those imported—It may appear that if the commodities exported are necessities the labourers may be injured by the rise in their price, but they are more than compensated by an increase in their money wages, because foreign commerce economises labour and capital, and therefore enables higher wages to be paid without encroaching upon profits—A consideration of the arguments in favour of protection which are current in the United States and in Australia—The fallacy explained of what is called 'reciprocity in free trade'—Commercial treaties involve a certain departure from the principles of free trade—The cost of exporting and importing commodities may be borne in different ratios in two different countries—The greatest portion of this cost of carriage would be borne by the country whose demand is least diminished by the commodity being increased in price, in consequence of the cost of carriage—If it is assumed that there is perfect free trade between the two countries, then there cannot be a greater difference in the price of any commodity in the two countries than is equivalent to the cost of carriage—The principles investigated in this chapter are equally true when a great number of commodities are interchanged, and when foreign commerce is not restricted to two countries—When it is said that, in order to satisfy

the equation of international trade, the commodities which a country imports must be equivalent in value to those which she exports, it is assumed that a country has no other payments to make to other countries except for goods imported, and no other payments to receive except for goods exported—If a country is a debtor of other countries, then her exports will exceed in value her imports by an amount equivalent to this indebtedness—If a country is a creditor of other countries, then her imports will exceed in value her exports by an amount equivalent to the net indebtedness of other countries to her—These principles explain why the exports of India always greatly exceed her imports, and why, on the other hand, the imports of England greatly exceed her exports .....PAGES 374—404

## CHAPTER VIII. *On the Transmission of the Precious Metals from One Country to Another.*

In a note at the beginning of this chapter, it is shown that the value of the metal selected as the standard currency is the same whether in bullion or in coin, when the Government makes no charge for coinage—The precious metals are distributed in two ways: first, they are exported from the mining countries as an ordinary commodity of commerce; secondly, they are transmitted from one country to another in the form of money—The value of the precious metals is regulated by laws identical with those which regulate the value of any other commodity which is exchanged in foreign commerce—The precious metals are constantly transmitted in the form of money from one country to another, because, in the first place, they contain great value in a small bulk, and secondly, every kind of wealth can be purchased by gold and silver—England is to a great extent the emporium of gold; a great portion of the gold which is produced in Australia, California, &c., is in the first instance sent to her, and then distributed by her to the various countries of the world—Although England imports and exports so much gold, yet the value of gold is kept in England approximately constant—This constancy in value is maintained, because it is impossible to obtain an undue amount of the precious metals, without producing a decline in the value of gold, or, in other words, a rise in general prices—If general prices rise in one country comparatively more than in another, the balance of trade is at once disturbed; the exports from the country are diminished, and her imports increased, and a drain of specie, consequently, at once commences—There is therefore a constant agency at work, which causes the precious metals to be equally distributed over the world ..... 405—411

## CHAPTER IX. *Foreign Exchanges.*

The commodities bought and sold in foreign commerce are usually paid for by bills of exchange; this course is adopted in order as far as possible to obviate the transmission of specie—A bill of exchange is a written acknowledgment given to a creditor, that a debt due to him shall be paid on a particular day—If the exports sent to a particular country are equivalent in value to the imports received from a particular country, bills of exchange enable the transmission of specie to be as completely obviated as if the exports were exchanged for the imports by barter—If the imports from France exceed in value the exports

from England to France, English merchants will have a greater demand for bills drawn upon France, than French merchants for bills drawn upon England—Bills drawn upon France will consequently be at a premium—When this is the case, the exchange is said to be against England, and in favour of France—A country has consequently to export specie when the exchange is against her—Hence the expressions 'favourable' and 'unfavourable' exchange are remnants of the mercantile system—If the exchange is against a country, its money will be depreciated in value, when compared with the money of a country which has a favourable exchange—When a scarcity of gold is anticipated, bills may rise to a greater premium or fall to a greater discount than is represented by the cost of carriage—As an example, bills drawn on France rose 10 per cent. when it was known that Napoleon had landed from Elba—If an unfavourable exchange always required specie to be actually exported, the premium upon bills would always closely approximate to the cost of transmitting specie—There are, however, constant fluctuations in the premium upon bills, because an unfavourable exchange may be rapidly succeeded by a favourable exchange—An unfavourable exchange cannot be of long continuance, because it exerts a tendency to diminish the imports, and to increase exports—An export of the precious metals, as ordinary commodities of commerce, does not necessarily denote an unfavourable exchange.

PAGES 412—421

## CHAPTER X. *The Functions of Credit.*

Credit signifies borrowing and lending, and therefore implies confidence—Credit is said to be good when there is confidence in those who borrow—The credit of an individual, as well as the credit of a state, is measured by the rate of interest paid for money borrowed—The oft-repeated maxim, that credit is capital, is a meaningless expression—Credit greatly assists the production of wealth, because wealth which is employed as capital is often borrowed from those who would not themselves employ productively the wealth which they lend—The deposit accounts which are held by banks illustrate the extent to which credit increases the capital of a country—Large public works, such as railways, could not be carried out if credit did not exist; the capital which they require is so large, that it must be borrowed from a great number of individuals—Credit enables all wealth which is saved to be applied to the most productive purposes..... 422—478

## CHAPTER XI. *The Influence of Credit on Prices.*

Bills of exchange, telegraph drafts, bank-notes, and cheques may be regarded as instruments of credit—A bill of exchange is a written promise to pay a certain amount at a fixed date; a bank-note is a promise to pay a certain amount upon demand—Different bankers exchange their cheques and bills at the Clearing House, and the convenience of this course is great—Bills of exchange, bank-notes, and cheques provide substitutes for money—Hence the influence exerted by credit on prices—When commodities are bought and sold by bills of exchange, the use of money is as completely dispensed with as if commodities were exchanged by barter—If bills of exchange were not employed, one of two things would happen; either the money in



circulation must be increased, or specie would rise in value—It is credit, and not the particular form in which credit is given, which provides a substitute for money—Book-credits, for instance, although not existing in a transferable form, may provide as complete a substitute for money as bills of exchange—Bills of exchange cause the amount of credit which is given in a country to be much greater than it would be if book credits were alone employed—A bank-note is a more complete substitute for money than bills of exchange, because if bank-notes did not exist, money must be employed in most of the transactions which are carried on by bank-notes—If bank-notes did not exist, either more money must be brought into circulation or general prices would decline—A country requires a smaller amount of money if it employs bank-notes; hence bank-notes economise wealth, because gold and silver are valuable commodities—No effect is exerted on prices by bank-notes, if they simply occupy the place of a corresponding amount of money—General prices are advanced by a bank-note circulation if bank-notes are added to the circulation without causing a corresponding amount of money to be withdrawn—Credit increases the purchasing power of each individual, and in this way exerts a great effect on prices—The effect, though great, is, however, temporary—Credit-purchases may enormously increase the demand for a commodity, and hence raise its price—But this rise in price is only temporary, because the price of all commodities ultimately approximates to their cost of production—The great purchasing power which may be exerted by credit illustrated by the tea speculations in 1839—The provisions of the Bank Charter Act explained—Speculative purchases which lead to a panic are not in the first instance made by bank-notes; hence restrictions upon the issue of bank-notes do not prevent commercial panics—In the latter stages of a panic, the demand for bank-notes and other money increases because credit collapses—Hence it has frequently been necessary to suspend the Bank Charter Act after a panic has continued some time—When trade is in its ordinary state, the bank-note circulation would not be increased if the Bank Act were repealed—The impression that the Bank Act will be suspended in a commercial crisis, increases the uncertainty and distrust prevalent at such a period—Creditors may be defrauded, and general prices may be raised without limit, if inconvertible notes are made a legal tender—These serious consequences do not occur if inconvertible notes are not made a legal tender.....PAGES 429—449

## CHAPTER XII. *On the Rate of Interest.*

The current rate of interest is determined by the price of Funds, because these securities involve no risk—In this chapter, two questions have to be investigated; in the first place, the causes which determine the normal or average current rate of interest must be explained, and secondly, the daily fluctuations in the current rate of interest must be accounted for—The current rate of interest must be such as will equalise the demand for loans to the supply—The average current rate of interest may be affected by national character, because some nations are more prudent, and therefore satisfied with a smaller rate of interest than others—If the average rate of profit advances, the current rate of interest must also rise—The rate of profit depends on the cost of labour; the cost of labour increases if food becomes more

expensive—If the current rate of interest advances, the price of securities and the price of land will decline—The causes which advance the rate of interest generally exert an influence to diminish the rent of land—Different rates of interest may prevail in different countries, because the people of one country will not invest their capital in another country without receiving some additional remuneration—Temporary fluctuations in the rate of discount or in the rate of interest are caused by variations in the demand for money—An increase in the demand for money is generally produced by contraction of credit.....PAGES 450—459

### CHAPTER XIII. *On the Tendency of Profits to fall as a Nation advances.*

Adam Smith erroneously supposed that the rate of profit depended upon general prices—A rise or fall in general prices need not necessarily affect the rate of profit—Adam Smith was led into the error above alluded to by misinterpreting the phenomena connected with the depression and activity of trade—The average rate of profit is partly the cause and partly the effect of the amount of capital accumulated—When a country advances in population and wealth, two agencies operate to reduce profits: in the first place, food becomes more expensive, and the cost of labour is increased; and secondly, a greater capital is accumulated in proportion to the profits which can be realised upon it—The decline in the rate of profit in England retarded by the great amount of capital which we invest in foreign countries—Industrial improvements, and the importation of cheap food, may prevent the cost of labour increasing as a country advances in population—This explains the fact that the rate of profit has not declined in England, although her population and wealth have both greatly increased—A nation is said to be in a stationary state, when the rate of profit is so low that the accumulation of capital does not further increase—The stationary state was more likely to be attained in the last century than at the present time—Surplus capital is absorbed, or rather destroyed, in a commercial panic; thus an influence is exerted to sustain the average rate of profit—A high rate of profit prevails in a colony, because fertile land is abundant—Agriculture must be the staple industry of a young colony—The returns to agriculture must be great when only the most fertile soils need be cultivated—Hence, in a colony, wages and profits are both generally high .....460—471

### CHAPTER XIV. *Of Over-production or Excess of Supply.*

Malthus, Chalmers, and Sismondi feared over-production, and therefore affirmed that some moral restraint ought to be exercised with regard to the accumulation of capital—Over-production has two meanings; it may either signify that commodities produced cannot be sold at remunerative prices, or it may signify that commodities are produced which are really not wanted—Over-production in its first signification will cause the profits of a particular trade to be low: the trade is then said to be dull or depressed, but such depression can only be temporary—The Lancashire Cotton Trade would have exhibited this first

kind of over-production, if the American Civil War had not occurred—This excessive supply of cotton goods would not be wasted; they would be readily purchased, if sold at sufficiently low prices—The accumulation of capital may reduce profits, but never causes more commodities to be produced than can be consumed—If capital continues to be accumulated, the wages of labourers would be increased—As an extreme case, it may be supposed that wages are so much increased, that all the wants of the labourer are satisfied; if, then, his wages are still further increased, he will shorten his hours of toil.

PAGES 472—477

## CHAPTER XV. *The Gold Discoveries.*

The annual supply of gold was trebled by the discoveries in Australia and California—The expectation that this increased supply would cause a great fall in the value of gold was not fulfilled—There was only a moderate decline in its value, and during the last few years (1873—83) it is thought by some that in consequence of a falling-off in the supply of gold, accompanied by an increased demand, there has been a rise in its value—The disadvantages which result to a country from a variation in the value of the substance which it uses as money—Difficulty of estimating the change in the value of gold by a comparison of prices at different periods—It is probable that there was a rise in general prices after the gold discoveries of about 15 per cent.—This opinion was supported by the late Prof. Cairnes and by the late Prof. Jevons—The value of the precious metals is determined by the same laws which govern the price of agricultural produce, but because mining is a more speculative industry than agriculture a decline in the value of gold and silver will not so rapidly lead to the abandonment of the least productive mines as a fall in the value of agricultural produce will throw the least fertile soils out of cultivation—The absorption of the large additional supplies of gold without producing a great fall in its value affords conclusive evidence that the value of gold would have risen if these additional supplies had not been forthcoming—The increase of commerce consequent on free trade and the development of the railway system absorbed much of the new gold—There was also a large additional demand for silver: great quantities of silver were sent to India during the American civil war to purchase cotton and also for the construction of public works—As there was until lately but a slight increase in the annual supply of silver, the additional silver required for the East was to a considerable extent supplied from the currencies of France, Germany and other countries; gold partly took the place of this silver; there was thus an increased demand for gold, and another influence was in this way brought into operation to maintain the value of gold—During the last ten years various circumstances have occurred to arrest the depreciation in the value of gold: its supply has diminished and the demand for it has increased—It has been thought by some that the value of gold has lately increased—As there is much uncertainty about the future value of gold and silver, arrangements which involve fixed pecuniary payments over a long period of years should as far as possible be avoided—Why the gold discoveries have exerted a special influence in promoting the prosperity of Australia—Gold-digging is not more profitable than other kinds of industry, but a gold discovery acts more powerfully than any other cause to attract labour and capital to a colony—Other kinds of industry in a young colony involve, in the first

instance, great risks; a supply of labour must be insured, and much fixed capital has to be expended in constructing roads, &c.—These obstacles impede gold-digging less than any other industry.

PAGES 478—492

## CHAPTER XVI. *The Depreciation in the Value of Silver.*

The supply of silver remained almost stationary until about 1870, when it very greatly increased—Silver has rapidly declined in price—The rapidity of the fall when compared with the slight and gradual fall in the value of gold explained by the circumstance that when the gold discoveries were made there was a great additional demand for gold; whereas there has been a great falling-off in the demand for silver at the very time when its supply was increased—The falling-off in the demand for silver has been partly produced by the demonetisation of silver in Germany and other European countries—There has been a great falling-off in the demand for silver in India—The quantity exported during the last ten years is less than a third what it was during the ten years previously—This falling-off in the demand is chiefly produced by the increasing proportion of the Indian Revenue which is spent in England—The depreciation in silver may be estimated in two ways: first by comparing its value with that of gold, and secondly by considering its general purchasing power—The recent fall in the price of silver has not yet been accompanied by a general rise of prices in India—This rise in prices will probably however occur, because it will become exceptionally profitable to purchase goods in India and exceptionally unprofitable for the people of India to purchase goods abroad—This will stimulate the export of silver to India and check the fall in its price—India suffers peculiar inconvenience and loss from a depreciation in the value of silver, because a large portion of her revenue is fixed in pecuniary amount and is paid in silver, and she has annually to pay a large sum to England in gold—A gold currency is wholly unsuitable to India—The unadvisability of attempting to maintain the value of the rupee in India by limiting the coinage—The importance of guarding against fluctuations in the value of gold and silver—India has to bear a serious loss from the depreciation of silver, which must be met by increased economy ..... 493—510

## BOOK IV.

### TAXATION.

#### CHAPTER I. *On the General Principles of Taxation.*

Mr Mill and others give to this portion of the subject the general title 'The influence of Government'—We think it advisable to limit this portion of our subject to an inquiry into taxation—Adam Smith's four rules, or 'canons' of taxation are the following—1st. Taxation should be equal; 2nd. Taxation should be certain in its amount; 3rd. Taxes should be levied at the time and in the mode which cause the least inconvenience to the tax-payer; 4th. A tax ought to obtain for the Government as much as possible of the whole amount which is levied from the tax-payer—Equality of taxation is impracticable, if it means taxing people in proportion to their means; this illustrated by the case of two individuals possessing equal incomes, one of whom is

married, and the other not—With the view of obtaining equality of taxation, it would be useless to attempt to tax people in proportion to the protection which they derive from Government—The first principle of taxation is enunciated by Adam Smith in very ambiguous language; he affirms that when there is equality of taxation, people are taxed in proportion to their ability to pay—Equality of taxation will not be secured, if it is attempted to apply this principle to one special tax—Equality of taxation is best secured by a rough process of compensation—A consideration of the policy of reducing national debts, either by devotion of the surplus and the immediate cancelling of debt, or by the creation of terminable annuities..... PAGES 513—522

## CHAPTER II. *On the Income-tax.*

The proposal that temporary incomes should be taxed at a lower rate than permanent incomes is supported, by some persons, first upon arithmetical grounds, and secondly, upon the general principles of taxation—The arithmetical argument is conclusive, that temporary incomes ought to be taxed at the same rate as permanent incomes, if it is assumed that the income-tax is uniform in amount, and permanent—Temporary and permanent incomes ought to be taxed at a different rate, if the continuance of the income-tax could ever be restricted to a definite period—Experience proves that this is impossible—The difficulty and expense of collecting the income-tax would be greatly increased, if an equitable rating of temporary and permanent incomes should be attempted—It is generally affirmed that the income-tax ought to be so adjusted, that each person shall contribute to it in proportion to his means—This principle, even if it could be carried out, would not necessarily secure equality of taxation; this proposition illustrated by considering the remission of the tax upon small incomes—Various other difficulties described, which render the adjustment of the income-tax almost impracticable—Objection to a graduated or progressive income-tax—The incidence of a tax distinguishes the real from the nominal payer of the tax—The incidence of the income-tax will partly fall on the labourers, if any portion of the tax is paid out of capital—The wealth of a country may be seriously affected by an income-tax, if the tax diminishes the national capital—Hence, in India an income-tax would produce very serious consequences, because there capital is accumulated very slowly—If the income-tax is remitted upon incomes of less than 100*l.* a year, this amount ought to be deducted from all larger incomes, and only the remainder should be taxed—One serious inequality affecting the income-tax, is caused by the power which dishonest people have of evading it—The advantages of an income-tax in such a country as England outweigh the disadvantages..... 523—543

## CHAPTER III. *Taxes on Commodities and other Indirect Taxes.*

Distinction between a direct and an indirect tax; the former is really paid by the person from whom it is levied; the latter is levied from one person, and paid by another—A tax is often made indirect by custom; for instance, the poor-rates are often paid by farmers, and are therefore an indirect tax—Poor-rates might be paid by the landlord; they would then be a direct tax—None of our taxes on commodities are protective—Taxes on commodities must be generally characterised by

inequality, because they can rarely be made *ad valorem*—Taxes on commodities are generally certain in their amount, and therefore obey Adam Smith's second rule—As far as the consumer is concerned, taxes on commodities are always paid at a convenient time, and therefore obey Adam Smith's third rule—Some taxes, such as the tax on hops, were obliged to be levied from the producer at a very inconvenient time—The convenience of bonding houses—Taxes on commodities ought, as far as possible, to be made consistent with Adam Smith's last rule—Customs duties are most inexpensive to levy in an island, because a land frontier is more difficult to protect against smuggling—Excise and customs duties should be confined to a few articles of consumption—The most serious objection against taxes on commodities is due to the fact that a tax increases the price of a commodity by an amount which exceeds the sum which the tax yields to the State—This objection ought to be, as far as possible, guarded against; hence a manufactured commodity ought to be taxed in preference to the raw material—A tax on a manufactured commodity is objectionable, because it necessitates the enforcement of vexatious regulations by Government officers—It is intended that import and excise duties should be paid by the consumers, but an export duty is supposed to be mainly paid by foreigners—This, however, rarely happens; such a duty usually diminishes the export trade of a country, and thus decreases her national wealth—It would be most disastrous for England to impose an export duty on silk goods, because, as far as this branch of industry is concerned, we should be unable in foreign commerce to compete with other countries—The theory of international trade proves the impolicy of protective duties—Landowners are the only class that can be permanently benefited by protective duties; the value of the natural monopoly which they possess may be artificially increased by protection—Protective duties cannot, in the long run, increase the profits of any class of traders, because the competition of capital equalises profits in different trades—The Corn Laws benefited the landowners, not the tenant-farmers—The increased prosperity of the country compensates landowners for the abolition of protective duties; this illustrated by the rise in the rent of land in this country since the passing of free trade—An industry artificially fostered by protection may be destroyed by free trade; but this cannot be ultimately a loss to a nation—A strong party in Australia are in favour of imposing protective import duties—They have supported this policy by a remark in Mr Mill's *Political Economy*, in reference to an apparent exception which he makes in favour of protective duties in certain branches of industry in a young colony—Reasons against imposing protective duties, even as a temporary expedient—A comparison between direct and indirect taxation useless—Each system has its peculiar disadvantages; hence equality of taxation is best secured by raising the revenue, partly by direct, and partly by indirect taxes.....PAGES 544—575

#### CHAPTER IV. *On the Land-Tax.*

The chief part of the revenue of India is raised by a land-tax—A land-tax is simply rent—When land is not cultivated by its owner a land-tax neither diminishes the profits of cultivation nor increases the price of agricultural produce—If a land-tax exceeds a rack-rent in amount, the price of agricultural produce must rise, and therefore the consumers of this produce will be virtually taxed—The importation of produce will be encouraged if the land-tax

exceeds a rack-rent; hence land will be thrown out of cultivation, and the land-tax will yield a smaller revenue—The land-tax in this country is small, because commuted at a fixed money payment—The tax-payers would have been benefited if the land-tax had not been thus commuted, but had been fixed at a certain definite proportion of the value of the land—A tithe may be regarded as a rent-charge, and tithes neither diminish the profits of the cultivator nor affect the price of agricultural produce—The Tithe Commutation Act was not quite fair to tithe-proprietors, because tithes are not affected by a rise in the price of stock—Agricultural improvements may be impeded if tithes are not commuted.....PAGES 570—575

## CHAPTER V. *The Poor Law and its Influence on Pauperism.*

An historical sketch of poor law legislation—The stringent laws against begging and vagrancy in the reign of Richard II.—Further legislation imperatively required in the time of Henry VIII. in consequence of the suppression of monasteries which had been centres of almsgiving—Various acts endeavouring to discriminate between voluntary and involuntary pauperism and to control private charity were passed—The experience gained of their working led to the passing of the poor law of Elizabeth in 1601 which first definitely established the right of every destitute person to receive relief and at the same time provided efficient safeguards against voluntary pauperism—The Elizabethan poor law continued in operation virtually unchanged, save for acts strengthening its principle, such as that which in 1723 established the workhouse test, till the latter half of the 18th century—Pauperism was at that time so insignificant in its proportions that it appears to have been thought unnecessary to maintain the stringency of Elizabeth's poor law—The workhouse test was abandoned—Gilbert's Act in 1782 and East's Act in 1815 abolished nearly all the checks on voluntary pauperism—The consequence of these relaxations and of the encouragement given in various ways to immorality, thriftlessness and dependence brought England to the verge of national bankruptcy—Rates threatened to absorb more than the entire value of the soil—Pauperism became a more remunerative profession than honest labour—This disastrous state of things led to the appointment of the Poor Law commission in 1832 and in 1834 to the passing of the New Poor Law re-enacting most of the Elizabethan checks on voluntary pauperism—A comparison of the poor laws of England, Ireland and Scotland proves that the amount of pauperism depends to a very large degree on the restrictions placed upon the distribution of out-door relief—Although pauperism has lately decreased in England and Scotland, and increased in Ireland, there is even now (1883) considerably less pauperism in Ireland in proportion to the population than in England and Scotland—The Union Chargeability Act—The Metropolitan Poor Act discourages out-door relief in London, and has been most useful in diminishing pauperism—The amount of pauperism in the various unions of England varies largely, and is in the main controlled by the degree of skill with which the existing law is administered—Proportion of pauperism to population in the unions of Whitechapel, Linton (Cams), Preston, Atcham, Oxford and Cambridge—Nearly all the motives for economical administration of the poor law would disappear if there were a national poor-rate—The dangers

associated with the poor law do not lead us to advocate its abolition—It is valuable in affording some control over unorganised and indiscriminate private charity: it also protects the poorest classes from the desperation caused by the prospect of absolute destitution—Hence, though socialistic in its character, the poor law affords a safeguard against the extremes of revolutionary socialism—The influence of education, cooperation and thrift in preventing pauperism—Hindrances to the employment of women encourage pauperism—Every occupation which is closed to women drives them in additional numbers into those occupations which remain open, and hence a tendency is exerted to depress wages already sufficiently low—The principle of the factory acts is just as applied to children but is indefensible when applied to adult women.....PAGES 576—594.

## CHAPTER VI. *Local Taxation.*

In this country a great contrast exists between local and imperial finance—The imperial revenue has been of late years so prosperous that although the expenditure has been maintained at a very high rate, there have been repeated surpluses and constant remissions of taxation—In local finance the expenditure invariably exceeds the revenue, and the deficiency is made up by loans—Statement of the local finance of London in 1868—Local expenditure is increasing much more rapidly than the national wealth—This illustrated by the great increase of rates in Liverpool since 1841—Defects of administration arising from confused areas of rating and from multifarious rating bodies—The creation of many new rates—The demand for new rates is encouraged by the idea that an increase of local expenditure is of little consequence in a country so rapidly increasing in wealth as England—Fallacy of this explained—Arguments against meeting local expenditure by grants from the Consolidated Fund.....595—605

## CHAPTER VII. *The Incidence of Local Taxation.*

Local taxation consists almost entirely of rates on real property—Figures quoted to prove that rates in towns are generally much higher than in country districts—Land is contributing a constantly decreasing amount to local taxation in comparison with other kinds of property—In the case of cultivated land, although the rates are usually paid by the occupier, their real incidence is upon the owner of the land—In the case of houses the incidence of by far the larger portion of the rates is upon the occupier; a small portion only falling upon the owner of the land on which the house is built—If, however, the house possesses such exceptional advantages of situation that the rent is only in a small degree determined by the cost of building, then the incidence of the rates is almost entirely upon the owner of the ground—When a uniform and general rate is imposed on business premises the rate really falls on the consumer—When rates are exceptionally high in a particular district they are a special tax on the profits of trade in that district—Rates imposed on railways and the railway passenger duty are a charge upon the profits of the shareholders and are not paid by railway passengers—The rates imposed upon water-works and gas-works are, except in certain exceptional cases, paid by the shareholders—The injustice explained of carrying out works of improvement by loans, the interest and capital of which are paid off in a fixed number of years, in the form of additional rates by the leasehold occupier, as distinguished from the owner of houses, land, and other rateable property...606—623



# **POLITICAL ECONOMY.**

## **BOOK I.**

### **PRODUCTION OF WEALTH.**



## CHAPTER I.

### INTRODUCTORY REMARKS.

ALL who have studied an exact science must have experienced the formidable difficulties which elementary chapters invariably present. The young mathematician may well be staggered at the discussions usually annexed to the enunciations of the laws of motion; the axioms in his Euclid, which he is told to believe are self-evident propositions, offer philosophic questions of such complexity, that they continue to form an arena upon which the subtlest intellects contend.

A definition of political economy, and an inquiry into the method of investigation that ought to be pursued in this science, involve considerations which are sure to perplex the beginner; but the young mathematician need not be driven away from his Euclid because philosophy has not decided whether axioms are intuitive truths, or truths learnt from experience; in a similar way, the student in political economy ought not to have his faith shaken in the truths of this science, because he has learnt beforehand that political economists still dispute upon questions of philosophic method.

We ask such a student to accompany us with an unbiassed mind; we will promise to lay before him truths of great interest and great importance; we will endeavour to render them intelligible, and when such a body of truths has been accumulated in the student's mind, he will be in a position to understand the exact nature and scope of the science to which they belong.

Although it is not advisable in this place to attempt a precise definition of political economy, yet it is necessary to give a general idea of the class of phenomena which

BOOK I.  
CH. I.

*Difficulty  
of the first  
elements of  
political  
economy.*

*Prejudices  
against  
political  
economy.*

BOOK I.  
CH. I.

this science investigates; it is all the more important to do this, because the vagueness of popular conceptions has generated a vast amount of prejudice towards political economy. Hardhearted and selfish are the stereotyped epithets applied to this science. Ill-defined antipathy is sure not to rest long suspended upon a mere abstract idea; it seeks some concrete object, and therefore the epithets applied to the science are speedily transferred to those who study it, and a political economist exists vaguely in the haze of popular ignorance as a hardhearted selfish being, who wishes to see everyone rich, but who has no sympathy with those higher qualities which ennoble the character of man. The error of this ignorant prejudice will be abundantly exposed in these pages; but we will make a few preliminary remarks upon it, in order to convince the student that the political economist is not the harsh being generally portrayed, but that he possesses that information which tells him how to improve the lot of his fellow-men. He may therefore be the most useful of all philanthropists; because a mere desire to do good without any principles of guidance is ever liable to be a futile and a misdirected effort.

*Political economy is primarily concerned with wealth.*

Political economy is concerned with those principles which regulate the production, the distribution, and the exchange of wealth.

The first great work on political economy was called by Adam Smith 'The Wealth of Nations;' but political economy is concerned alike with individual and national wealth. Those who share the popular error above alluded to, make this inquiry, Has a nation no other mission to fulfil than to become rich? and should wealth be to the individual the one absorbing aim of life? But political economy never even gives colour to the suspicion that the creation and accumulation of wealth ought to be the great object either of a nation's or of an individual's existence. The springs of life's action are numerous; society is held together by a vast aggregation of motives and sympathies. Wealth is necessary to man's existence; a great portion of human exertion is stimulated by the necessity to labour, in order to procure the commodities which maintain life. When, therefore, we endeavour to consider the phenomena connected with the production and distribution

of wealth, we do not wish, in a feeling of opposition, to ignore the other phenomena of man's social existence; we isolate this class of phenomena, because the necessities of scientific investigation demand it. Every social question, either directly or indirectly, involves some considerations of wealth, and therefore has an aspect from which it must be considered by political economy. Thus when it was proposed to extend to the whole nation the system of compulsory education, introduced by the Factory Acts, political economy pointed out how production in this country, and how the wages of the labouring classes, would be affected, by compelling every child under thirteen years of age, who might be employed in any kind of labour, to attend school a fixed number of hours per week. This was an aspect of the question which it was necessary to consider, but even if the political economist had proved that the production of commodities would be rendered more expensive, he might have been the first to admit that such a loss of national wealth would be abundantly compensated by the increased intelligence of the labouring population.

Numerous other examples might be given which would still further prove the complete fallacy of the accusation which is so constantly brought against political economy, that it is a science which encourages selfishness and degrades the best feelings of human nature. If a political economist considers that the only aim and end of life is the accumulation of wealth, then the individual ought to be blamed, and not the science which he studies. Political economy, if kept within its proper limits, does not provide a code of social ethics which will enable us to decide what is right or wrong, and what is just or unjust. It is the business of political economy to explain the effect which any circumstance such as the imposition of a tax, or the enforcement of a particular land-tenure, will exert upon the production, the distribution, and the exchange of wealth; and it is therefore manifest that political economy cannot take account of various other consequences which may be independent of any considerations concerning wealth. Thus, to revert to our original illustration, the principles of political economy enable us to ascertain in what manner the wages of labourers and the production of wealth are affected by a compulsory system of national

BOOK I.  
CH. I.

*but does not  
ignore  
other mo-  
tives than  
the desire  
for wealth.*

education. Hence the department of this question which belongs to political economy is, as it were, separated from those other departments of the question which investigate whether or not the morality and the social happiness of the people are increased by a system of national education. It is therefore a fundamental error to suppose that political economy ever asserts that the higher motives which actuate human beings ought to be discarded in favour of wealth. Some writers on this science when discussing social questions may consider only that part of a subject with which political economy is concerned, and thus the error may be committed of establishing general conclusions from an incomplete investigation. Hence political economists have sometimes appeared to be harsh and narrow-minded, but it is as idle upon these grounds to accuse political economy of being selfish and hardhearted, as it would be to blame geology because an injudicious and enthusiastic geologist ignored and despised other branches of physical science.

It must moreover be borne in mind that although sentimental people may profess to sneer at wealth as one of the idle vanities of this world, yet there can be no doubt that, even in England, the great besetting evil of the nation is the poverty of the humbler classes, and that these people cannot make any great social advance until a decided improvement has taken place in their material condition.

*Meaning of  
the word  
'wealth.'*

We have described political economy as a science which is concerned with the production, the distribution, and the exchange of wealth. But the meaning of wealth, though a word of every-day use, will not probably be adequately understood without some elucidation.

Wealth may be defined to consist of every commodity which has an exchange value.

*Exchange  
value.*

The necessity of the limitations introduced into this definition may be readily shown. The air we breathe is of course not only a want, but a necessity of life; yet it cannot be regarded as wealth, because it can be obtained without labour and its supply is unlimited, and it therefore has no exchange value. Water very generally can be obtained in an unlimited quantity, and therefore it is not wealth; but the population of a large town would soon absorb all the water which nature spontaneously

provides, and therefore water must be supplied by artificial means. It then at once possesses an exchange value, and is justly considered to be wealth. Wealth, therefore, is not determined by the nature and quality of a commodity, but rather by the circumstances in which that commodity may be placed. A gallon of the water which flows from the springs at Amwell is not, there, wealth; it would be as valueless to sell as a cubic foot of air, because, there, a supply of water can be as easily obtained as a supply of air; but that same water conveyed a few miles, to the metropolis, produces the large annual revenues of the New River Company.

The character of wealth may be also given to a commodity by the shifting caprice, or by the changing wants of man. It thus becomes evident that exchange value is the characteristic which stamps a commodity with the attribute of wealth.

The most striking variations in wealth are exhibited by the same nation in different ages, and by different nations in the same age. There was a time when England was as poor as any country which is now consigned to the wandering savage, and yet she possessed then those same natural resources which now so materially contribute not only to form but to sustain her present wealth. The richest seams of coal were unworked, but in those remote times her population was in a condition in which they could have no demand for coal, and therefore this article had no exchange value; and that commodity which is now so valuable, could not then be legitimately classed as wealth. Hence it is manifest that the social condition of a nation and the state of its civilisation determine to what extent natural resources may be classed as wealth.

Each stage through which progressive nations have advanced from barbarism to civilisation is preserved at the present time in some parts of the globe. The savage still exists who lives by hunting and fishing; the wandering Arabs are true types of the ancient nomad tribes whose flocks and herds were grazed on natural pastures without the aid of the large supply of food which would be yielded even to the rudest agriculture. The village communities of the East remain instructive examples of the patriarchal type of life; the stereotyped condition of China exhibits

*Various  
amounts of  
wealth in  
different  
ages and  
countries.*

BOOK I.  
CH. I.*Erroneous  
view of  
wealth.**The mer-  
cantile  
system.*

the features of a remote civilisation. These great differences in wealth are partly due to physical causes, but they mainly depend upon social circumstances, and as far as they do so, form the appropriate topics of political economy. The mind of an Englishman so habitually contemplates progress, that it is difficult to keep in view how large a portion of the habitable globe is in an absolutely stationary condition. It is the duty of the political economist to explain not only the conditions which determine progress in national wealth, but also the causes which tend to make the material state of a country either stationary or retrogressive.

It is even at the present day important to direct careful attention to an erroneous conception of wealth, which was universal until the appearance of Adam Smith's great work in 1775. The error when once exposed may appear incapable of misleading a child, yet no error was ever more tenaciously clung to; it not only corrupted speculative science, but it infected the whole commercial policy of every European nation. These errors are associated with the policy which has received the name of the mercantile system. The essence of the mercantile system was to identify wealth with money. Now the use of money is one of the first signs which marks a nation's progress from barbarism towards civilisation. Societies even comparatively rude must be impressed with the necessity of adopting some medium of exchange. This will be readily understood by a cursory glance at the general functions which money fulfils. In the first place, money provides a measure by which to record the value of each commodity. If, for instance, it is known that a sack of wheat is worth twenty shillings, the value of the sack of wheat, compared with any other article, can be at once ascertained when the price of this last article is known. Money, moreover, is not only a universal measure of value, but is also a universal medium of exchange. A man may possess a store of wheat which he requires to exchange for various other commodities; money provides him with the machinery by which this can be readily effected. The wheat has simply to be sold for so much money, and with this money a certain amount of the other commodities required can be purchased. But if the use of money did not pro-



vide a general medium of exchange, the whole transaction must be conducted by barter; thus, if the individual possessing the wheat required a coat, he would have to discover some one who was willing to exchange the coat he wanted for wheat. Every transaction would under these circumstances be conducted by barter. Commerce thus impeded could never develop, and society never advance beyond its primitive rudeness. But these important functions which money performs, engendered in men's minds the fallacies of the mercantile system. For the value of every commodity being estimated in money, and every commodity also when bought or sold being exchanged for money, men soon began to mistake the symbol for the reality, and nothing was regarded as wealth except money. A nation consequently tested the utility of its commercial transactions with other nations, by ascertaining whether the commerce caused money to flow into the country. The whole commercial policy of a nation was framed with a specific object of encouraging the greatest possible accumulation of the precious metals. No one would now profess adherence to the errors of the mercantile system, but we shall have abundant opportunities of showing that they are still the secret prompters of many a wide-spread fallacy. The consequences of the mercantile system will be further discussed in those chapters which treat of money.

These general remarks upon wealth will enable us at once to proceed to the consideration of the production of wealth, the first great division of political economy.

## CHAPTER II.

### THE REQUISITES OF PRODUCTION.

BOOK I.  
CH. II.

*Requisites  
of produc-  
tion.*

*Labour,  
natural  
agents,*

**T**HE production of every species of wealth requires the application of man's labour. The forces of nature, acting upon the materials of which the earth is composed, have created products from which wealth is immediately derived. The seams of coal were deposited without any human agency; but the coal is not available to satisfy any of the wants of life until man's labour has dug this coal from the mine, and placed it in those situations in which it is required. But labour, in order to produce anything, must have some materials upon which to work. These are supplied by nature, and may be termed natural agents. The steam-engine, for example, is fashioned out of metals, deposited as the result of certain forces acting in remote geological ages.

Production, therefore, has manifestly two requisites—labour, and appropriate natural agents upon which this labour may work. But there is a third requisite, the necessity of which will, perhaps, not appear so self-evident. The casual observer might be very possibly satisfied to accept as sufficient the two requisites of production we have mentioned; for it might be said, Does not properly trained labour, acting upon suitable materials, suffice to produce the required commodity? But there is something which is requisite to this labour itself. The labourer must be fed. How can he be fed but by food which has been previously accumulated? This food also required the application of labour; therefore, since the labourer must be fed by previously accumulated food, a third requisite of production is suggested, for some of the results of past labour are required to be set aside to sustain the labourer whilst

labouring. The third requisite of production, therefore, is a fund reserved from consumption, and devoted to sustain those engaged in future production. This fund is termed capital.

The early steps of a student in almost every science are met by certain obstacles; if he succeeds in surmounting these obstacles, his future progress seems to be insured. The young mathematician who obtains a firm grasp of the physical conceptions involved in the laws of motion, will comprehend with facility problems of apparently great mathematical complexity. The questions involved in considering the functions of capital, will test a man's capacity to master the principles of political economy. Success in the study of this science may be regarded as guaranteed to all who obtain a clear insight into the nature of capital.

There are certain fundamental propositions concerning capital which should be kept steadily and constantly in view. One of these is as follows:—Capital is the result of saving. This saving may not be primarily prompted with a view of assisting future production. The results of labour, however, are not rendered immediately available for consumption: the ploughman who ploughs the soil must wait for months before the wheat which his labour contributes to produce, will be ready for human food; but the ploughman must be fed, and he is fed with food previously accumulated. The labourers, too, who have constructed his plough, must be fed on food which has been saved from previous consumption; for a considerable time must elapse before the harvest can be gathered from the soil which the plough has assisted in tilling. Capital, therefore, represents all that has been set aside from the results of past labour to assist present or future production. It will now be perceived that capital is as indispensable a requisite of production as either labour or appropriate natural agents.

BOOK I.  
CH. II.

*and capital.*

*Capital is  
the result  
of saving.*

## CHAPTER III.

### LABOUR AS AN AGENT OF PRODUCTION.

BOOK I.  
CH. III.

*Wealth involves the application of labour*

*in complicated processes.*

IT is manifest, from the remarks which have been made in the previous chapter, that labour is indispensable to the production of wealth. As we proceed to describe the purposes to which labour is directed, it will be found, as observed by J. S. Mill, that labour creates utilities fixed and embodied in material objects. Nature supplies the materials, but labour fashions these materials, arranges them, places them in those situations in which they are required, and in fact renders them in every respect suited to satisfy the wants of life.

The greater number of commodities, before they become serviceable for man, pass through many complicated processes, each of which necessitates much complex labour. Trace the cotton seed, first sown in the swamps of Georgia, then supplying material to the looms of Manchester. Watch the woven cloth transported to the far East, there destined to clothe the inhabitants of some remote valley of Scinde. Attempt such an examination, and we at once become almost overwhelmed with the endless series of labourers who have ministered to the production of so simple a commodity as a piece of cotton cloth. There are those who cultivate the cotton plant in Georgia, and prepare it for exportation. The cotton has to be brought to the port. Shipwrights must have constructed the ships which carry the cotton from America to England; sailors must navigate these ships; dock-labourers are required to unload the cotton; the railway on which the cotton is carried from Liverpool to Manchester has been constructed by the industry of numerous classes of labourers; and the cotton, before it is woven into cloth, passes through

the hands of a succession of workmen whose skill is assisted by machinery—to the creation of which almost every class of labourers has contributed, from the collier to the skilled and thinking mechanic. Every one may also be regarded as an important participator in the work, who has, by his saving, contributed to the accumulation of the capital by which the industry of the labourers has to be sustained. We are quickly carried into endless ramifications if we attempt to ascertain the labour which has, either directly or indirectly, assisted in the production of an apparently simple commodity.

Although no wealth whatever can be produced without labour, yet there is much labour which does not contribute to the creation of wealth. Hence, labour is divided into two great classes, productive and unproductive labour. This is a distinction which, in name, is familiar to those who have not studied political economy.

Before the characteristics which distinguish productive from unproductive labour are explained, it will be necessary to revert to our primary conception of wealth. Nature, as has been before remarked, supplies the materials. Man is powerless to create any material object; he combines substances together which would never be combined without his interposition, and thus creates a product which nature could never construct without his aid. Man takes the wheat and puts it in that situation where it will be ground; with the flour he mixes a certain quantity of water and yeast, and when he has brought the mixture within the influence of the requisite heat, a loaf of bread will have been made. It is through the agency of man's labour that these utilities are embodied in material objects which give them their exchange value. For instance, the utility which man confers upon coal is to place it in those situations in which it may be required. There can be no doubt, therefore, that all that labour is productive which confers utility upon material objects.

Such is the labour of all ordinary workmen. Agricultural labourers, manufacturing operatives, bricklayers, &c., must all be manifestly ranked as productive labourers. All those, too, who are employed in transporting merchandise from one place to another, are productive labourers, for they confer upon commodities the utility of being

*Productive and unproductive labour.*

*Functions of labour*

*in conferring utility directly,*

in the place where they are required. The labour of policemen and others who are engaged in protecting industry is productive, because they confer upon commodities the important utility of security. But even the labour of productive labourers is not unfrequently unproductive. Public works have been commenced and abandoned; the labour which was bestowed upon these is of course wasted. A railway was constructed from Chesterford to Newmarket; it was closed almost from the first; there is now no chance of its being reopened, for the company has commenced reselling the land to its original proprietors; and thus the labour of even the most useful workmen may be unproductive.

or indirectly.

There is also labour which is eminently useful, but which, however, does not directly contribute to the production of wealth. As an example of this, it may be mentioned that, not many years since, the uneducated labourer was considered as efficient as the educated labourer, and employers were heard to regret those days when there were no schools to corrupt the industrial virtues of the workmen. When such opinions were current the labour of the schoolmaster must have been considered entirely unproductive, because it would have been supposed that, even if he did not impede, he certainly did not promote, the efficiency of the labourers, regarded as mere machines for the production of wealth. But now facts are every day coming to light which must impress us with the conviction that the schoolmaster occupies a most important position in the material economy of the nation. Even to manual labourers a properly developed mind is as essential as a well-developed body; and there can be no doubt that he who contributes in any manner to improve either the physical or intellectual condition of the people takes no unimportant part in assisting the nation's wealth. Much labour, therefore, which at first sight may seem unproductive, will appear, on further consideration, to exert an indirect influence upon the production of wealth. Popular notions attach a certain stigma to unproductive labour. No doubt, waste of any kind is to be deplored; but we should not be too prone to regret that so much labour is devoted to provide the pleasures of life, for the happiness of a nation may be in some degree estimated by

the time and labour which can be spared for enjoyment: even the labour of those who provide these enjoyments is not altogether unproductive: a man will work with more vigour and efficiency if his mind can be diverted from the routine toil of life.

From these remarks we are able to deduce a precise definition of productive labour. The definition which is now usually accepted, is as follows:—‘Productive labour is that which produces utilities fixed and embodied in material objects.’ According to this definition, the labour of the teacher is unproductive from whose instruction a mechanic acquires his skill. And yet the skill of our workmen ought to be classed as wealth, because the loss of this skill would diminish the wealth of the nation, as much as if she were deprived of a great amount of material wealth. If, however, the skill of the labourer is classified as wealth, we strain the use of the word ‘wealth’ beyond its usual acceptance; because wealth is always popularly conceived to be something material. We will therefore adopt the following definition:—Productive labour is that which either directly or indirectly produces utilities fixed and embodied in material objects. According to this definition, the labour of the teacher who imparts skill to the mechanic is productive, for by this skill wealth is created—or, in other words, utilities are embodied in material objects, and therefore the labour of the teacher *indirectly* produces these utilities, and his labour must consequently be classified as productive. The definition, moreover, obviates the necessity of running counter to popular language, for this is undoubtedly done if we denominate as wealth such an immaterial object as the skill of a mechanic.

For the purposes of political economy, there is another distinction, as important as that between productive and unproductive labour. Much of that which is produced is destined to be wasted, or to be consumed unproductively. The wants of those who never contribute, either directly or indirectly, to the wealth of the nation must be supplied by the results of productive labour; and hence a portion only of the results of productive labour assists in the formation of new wealth. Consumption, therefore, as well as labour, may be either productive or unproductive.

BOOK I.  
CH. III.

*Definition  
of pro-  
ductive  
labour.*

*Productive  
and unpro-  
ductive  
consump-  
tion.*

Although the entire consumption of unproductive labourers must be unproductive, yet it does not follow that commodities are always consumed productively by productive labourers. For instance, even the poorest labourers in this country purchase some luxuries which they could abstain from, without in the slightest degree diminishing the efficiency of their labour. All such purchases, therefore, even if made by the most productive labourers, denote unproductive consumption.

The distinction between productive and unproductive consumption will assume considerable importance in the remarks we are about to make upon capital.



## CHAPTER IV.

### OF CAPITAL.

WE have already explained that capital is as indispensable a requisite of production as either labour or appropriate natural agents. A very little consideration will render it evident that labourers, whilst engaged in any particular industry, cannot live upon the commodity which their labour is assisting to produce. The ploughman who tills the soil from which, in the following autumn, the harvest will be gathered, is fed with the wealth which his master has saved; or, in other words, the master pays his labourer's wages from the wealth which he has previously saved. The production of wealth, therefore, cannot proceed unless some of the wealth previously produced has been set aside from immediate consumption. The wealth which has been accumulated with the object of assisting production, is termed capital; and, therefore, the capital of the country is the wealth which is not immediately consumed unproductively, and which may, consequently, be devoted to assist the further production of wealth. This is a wide definition, but it is correct and sufficiently definite until the subject has been more fully elucidated.

In the general introductory remarks upon wealth, particular attention was directed to that current fallacy which confounds money with wealth. The student, in obtaining his primary conceptions of capital, is not unfrequently confused by a similar fallacy. Capital, like other wealth, is estimated and expressed in money. Hence the idea is encouraged that capital consists of money, to the exclusion of any other commodity; although, perhaps, adhesion would not often be professed to such a proposition

BOOK I.  
CH. IV.

*Definition  
of capital.*

*Fallacy of  
confound-  
ing capital  
with  
money.*

when stated in plain terms; yet, when the error can be partially concealed in some of the difficulties of complicated questions, it will be found to vitiate many popular opinions which at first sight appear plausible. Capital, let it again be borne in mind, is all that wealth, in whatever shape or form it may exist, which is set aside to assist future production. It is true, that if, for instance, you ask a farmer how much capital he has with which to work his farm, he will reply that he has so many thousand pounds, but his capital is not actually in money, and even if it were in money it could not fulfil the functions of capital until the money had been exchanged for various commodities. For why does a farmer require capital to work his farm? He requires capital because implements and stock are wanted, and because he must have money, or some other property in hand which he converts into money, in order to pay the wages of his labourers; although a farmer estimates his capital in money, he obtains the amount of this estimate by ascertaining the pecuniary value of the various items of which his capital is composed. In making this calculation, he takes account of the value of his stock, his implements, and the amount of money which it is necessary for him to keep in hand in order to pay his labourers' wages, and to provide the outlay which is requisite for other purposes.

*Capital not  
all in ac-  
tual em-  
ployment.*

It has been just stated that the whole capital of any country is the sum of the wealth existing in any shape or form which has been set aside with the object of being devoted to assist future production. Hence it is manifest that the whole capital of the country is not at any particular time actually employed. This may be readily explained by an illustration.

Let us consider some commodity, such as wheat, which is produced in our own country, and to simplify the matter we will suppose that all the wheat of one harvest is consumed by the time the next harvest is gathered in. Now it may naturally be asked, What portion of this wheat ought at any time to be regarded as constituting capital? Immediately the harvest is gathered in, the wheat is of course so much wealth, and at that time just so much of the wheat as each individual owner intends to employ productively is capital. But this affords no correct estimate of

the quantity of this wealth which will be ultimately employed as capital. The intentions of the individual owners may change; he who to-day intends to devote to productive employment so much wealth as is represented by a certain quantity of wheat in his possession, may next day resolve to spend it on unproductive consumption, and therefore, to speak correctly, the amount of the capital of a country varies from day to day, on account of the shifting caprice of individuals. It has been supposed that the whole of this wheat will have been consumed when the next harvest arrives, and then the exact quantity of the wheat which has been employed as capital would of course be known, if the portion of it which had been devoted to productive purposes could be ascertained.

A difficulty may here probably suggest itself, which it is very important should be cleared away. A prime necessary of life such as wheat is never to any large extent wasted or squandered luxuriously; the great bulk of it being always devoted to satisfy the most necessary wants of life. It may therefore be asked, Should not all the wheat which a country possesses be regarded as a portion of its capital, when it is consumed as usefully as any commodity can be? A prodigal farmer may sell his wheat, and squander the money which he obtains for it, but the wheat will not be wasted, and therefore it might be very plausibly urged that the individual owner of a commodity like wheat does not prevent it being productively employed, or, in other words, has not the power of determining whether it shall or shall not form a portion of the capital of the country. We have thus gradually found our way to a difficulty. The subject of capital cannot be considered under too many aspects; it is here that the young student in political economy finds himself most beset with difficulty. He will never become familiar with the fundamental principles of capital by exhibiting them in the form of propositions; they had better be suggested to him by following out some illustration. An adequate grasp is never obtained of the physical principles of mechanics, until the student has solved problems for himself.

The case suggested is this. Suppose the farmers resolved to sell half their wheat, and spend the money upon their own enjoyments; the money for which one-

BOOK I.  
CH. IV.

*A difficulty  
stated: Is  
all the  
wheat in  
existence  
capital?*

BOOK I.  
CH. IV.

*That portion which is exchanged for luxuries is not capital.*

half the wheat is exchanged would be thus employed unproductively. Ought this wheat to be regarded as capital? Yes—is the answer which will very probably be given. It is true that the money for which the wheat is sold is employed unproductively, but this will not in any degree prevent the wheat being devoted to useful purposes. The wheat will still be made into bread, and will be consumed in just the same manner as it would have been if the farmers devoted the money for which it was sold to productive purposes, instead of spending it on their own enjoyments. But suppose the farmers had devoted this money for which the wheat was sold to productive purposes; by just that amount would the capital of the country be increased. The money for which the wheat is sold is not itself consumed; this money is devoted to purchase commodities, and if they are consumed unproductively, an amount of wealth equal in value to the quantity of wheat first exchanged is consumed unproductively, instead of being devoted to increase the capital of the country, and thus assist the future production of wealth. Now our argument implies that when unproductive consumption is spoken of, a tacit assumption is made that the money for which the wheat has been sold is employed, in great part, to purchase luxuries. But luxuries, it may be said, naturally imply waste, and are not devoted to assist the production of wealth. Hence, all that portion of the wealth of a country which consists of luxuries can never be productively employed, and, therefore, can never be made to form a part of a nation's capital. It may, therefore, be asked, Can a farmer be said to diminish the capital of a country, if he does not waste his wheat, but simply sells it to others who will take good care to use it properly? It may further be urged that he does not reduce the capital of the country by buying luxuries; for luxuries cannot be used as capital, and if they were not consumed unproductively by him they would be so by some other person. It might, therefore, appear that wealth is diverted from forming a part of the capital of the country rather by those who produce luxuries, than by those who consume them; it must, however, be borne in mind that the demand of the consumer, and not the arbitrary caprice of the producer,

determines the particular commodities which are manufactured. Luxuries, and other articles which cannot be devoted to reproductive employment, would not be brought into the market if it were not for the demand of the consumer. Enough has now been said to establish the proposition that an individual increases the capital of the country, not by spending his wealth on his own enjoyments, but by devoting it to reproductive employment. This is only another corroboration of what has been already stated, namely, that capital is the result of saving. For when wealth is saved, it is not hoarded, but invested; it is then productively employed, and as a consequence at once assumes the functions of capital.

The proposition just enunciated, that an individual diminishes the capital of a country by spending his wealth in luxuries, and increases the capital of the country by saving it, will lead us to another equally important proposition, which it is usual to express by the formula that a demand for commodities is not a demand for labour. Although this form of expression has been adopted in previous editions of this book, yet we think that advantage will result from enunciating the principle in language which will appear less paradoxical. What is really intended to be asserted is that the purchase of commodities, which are unproductively consumed, does not exert the same influence in increasing the demand for labour as if the wealth with which the purchase was effected were used as capital, and were devoted to the employment of labour. It may be thought that no such difference to the labourer as that just indicated could result, because it may be urged that if a man spends a thousand pounds in the purchase of velvet, a large portion of this thousand pounds will be virtually expended in paying the wages of the operatives who make the velvet, and therefore it may be said, what difference, so far as the labourers are concerned, will it make whether a landowner spends a certain sum of money in the purchase of an article of luxury like velvet, or lays out the amount in employing labourers in the improvement of his estate? Is not the one course as good for trade as the other? It is however easy to show that there is an important difference in the results which follow from these two courses. The purchase of the velvet may no doubt

BOOK I.  
CH. IV.

*Examination of the proposition that a demand for commodities is not a demand for labour.*

BOOK I.  
CH. IV.

give a certain amount of enjoyment to those who wear it, but it will do nothing to assist the future production of wealth. The wealth which is expended in paying the wages of labourers engaged in the improvement of an estate will be consumed just as certainly as the velvet will be worn out; but the wearing out of the velvet leaves no result behind, whereas, as a direct consequence of employing labourers in the improvement of an estate, the productiveness of the land may be increased by an amount more than equivalent in value to the wealth which has been consumed in improving it. It thus follows that the unproductive consumption of commodities diminishes the amount which may subsequently be devoted to paying the wages of labour; whereas wealth directly expended in paying the wages of labourers will, unless it is unskilfully, and therefore unprofitably, applied, increase the amount which may be expended in wages.

*Unproductive consumption diminishes wealth which might otherwise be used as capital.*

The proposition which has just been established is of much practical importance, because it disproves the idea which is so common that the labourer is benefited by the wasteful expenditure of the spendthrift. Not only is extravagance often excused on the plea that it is good for trade, but saving not infrequently incurs much popular reproach because it is supposed that the person who saves does no good to the labourer. It has, however, we think, been shown that the industrial classes are more benefited by a man who saves wealth and productively employs it, than by one who spends it on his own indulgences.

In thus contrasting the different results which follow from the saving and spending of wealth it has been assumed that the wealth which is saved is devoted to the productive employment of labourers. It may, however, very possibly happen that the work in which labourers are engaged is not reproductive of fresh wealth. Thus they may be employed in making an artificial lake which, though useful for ornament, does not promote the future production of wealth. It will therefore be desirable to consider whether any different consequences result to the labourers as a class when wealth is expended in paying their wages for some unproductive employment instead of being unproductively consumed by its possessor. In order to investigate this point let us inquire what will take place

*Consequences resulting from devoting capital to paying wages to*

if a thousand pounds which has before been expended in the purchase of velvet is now employed in the making of an artificial lake. Accepting the conclusions which have been arrived at by Mr J. S. Mill, and other political economists, we have, in previous editions, endeavoured to show that the unproductive consumption of wealth by its owners would produce much less beneficial consequences to the labourers than if the wealth were expended in paying their wages, even although they were employed upon some entirely unproductive work. Subsequent consideration has induced us to think that this conclusion requires considerable modification. As previously remarked, in investigating many of the problems connected with capital it often happens that sufficient stress is not laid upon the fact that only a portion of the wealth which is saved in such a country as England is employed as capital in supporting home industry. With the extension of foreign commerce and increased facilities of communication a larger proportion of the wealth which is saved is every year embarked in foreign investments. It may be readily shown that this fact has an important bearing in tracing the results which will follow from employing wealth in paying the wages of unproductive labourers instead of consuming it unproductively. It has been argued by Mr Mill, and other political economists, that although in the first instance the amount devoted to wages must be nearly the same, whether a thousand pounds is laid out in velvet or is paid to labourers who are making an artificial lake, yet the consequences which ultimately ensue are very different, and they seek to establish this conclusion by some such considerations as the following. A large part of the thousand pounds which is expended in velvet is employed in paying the wages of the labourers who make the velvet, and therefore it would appear that in the first instance the amount expended in wages will be nearly the same whether velvet is purchased, or whether labourers are employed in making a lake. It is however contended that if the latter course is adopted a greater amount will ultimately be expended in wages than if velvet is purchased, because with the diminution in the demand for velvet the amount expended in wages in this particular industry will be less than before. Yet the manufacturers of velvet will, as their

BOOK I.  
CH. IV.

*labourers  
who pro-  
duce arti-  
cles of  
luxury.*

*The con-  
clusions  
arrived at  
are modi-  
fied by the  
case with  
which in  
modern  
times  
capital is  
exported.*

BOOK I.  
CH. IV.

*Great loss  
arises from  
transfer of  
capital and  
labour  
from one  
industry to  
another.*

business is curtailed, be anxious to seek some eligible investment for that portion of their capital which they can no longer employ in their own trade. It consequently follows that although there may be a transfer of capital, yet the aggregate amount of wealth employed as capital, and therefore the amount expended in wages, will be greater, than it would be if wealth, instead of being applied to employing labourers on some unproductive work, were to be used in the purchase of some article of luxury, such as velvet. We cannot help thinking that in thus broadly stating the conclusion two considerations of much importance are lost sight of. In the first place, capital cannot be transferred from one industry to another without considerable loss both to the employer and the employed. It must almost invariably happen that the employer will have to bear serious loss if he has to dispose of a portion of his fixed capital, or has to devote his building, machinery, and other plant to another industry; and a not less serious loss may have to be borne by the labourers if they have to seek employment in some other industry to which they are not accustomed, and are thus deprived of the advantage of their acquired skill. Then again, as previously indicated, it does not necessarily follow that the trader who has to seek a new employment for the portion of his capital which is no longer required for his own business will employ it in home industry. It may very possibly be lent to some foreign government or be embarked in one of the numerous foreign investments which are constantly attracting an increasing amount of English capital. If this should be the case it would follow that the amount of capital employed in English industry would not be increased by using wealth in the employment of unproductive labourers instead of consuming it unproductively. Although therefore we believe that too much importance can scarcely be attributed to the fact that those who save wealth rather than those who spend wealth are the best friends of the labourer; yet it is perhaps better in stating the principle not to adopt the somewhat paradoxical assertion that a demand for commodities is not a demand for labour. Such a form of expression has, we consider, often induced political economists to lay too much stress on the difference in the effects produced by employing wealth in



the payment of wages to unproductive labourers or in the purchase of commodities which are unproductively consumed. The difference should be made to rest not simply upon using wealth in the payment of wages, but upon the circumstance of whether or not it is so reproductively employed that as the result of its consumption a greater amount of wealth is created than that which is consumed.

In the course of this chapter it has been frequently remarked that capital is wealth which has been appropriated to assist future production. Wealth so appropriated consists of machinery, stock, implements, and a fund out of which the wages of the labourers are provided; but the capital of the country is not always employed at the greatest advantage, or, in other words, the capital of a country might always administer to the production of a greater quantity of wealth than is actually produced. Capital is wasted through want of skill; inferior machinery is frequently used; industrial enterprises, after having involved a heavy outlay, are often finally abandoned. Wealth which is used as capital, from other reasons, too, never contributes all the assistance it might to the production of wealth. The wages of labourers paid out of capital are generally sufficient to provide something more than the necessaries of life. The worst-paid classes of labourers probably spend some small portion of their wages in luxuries, the consumption of which does not assist, but perhaps rather interferes with, the efficiency of their labour. The advocates of Temperance furnish abundant statistics upon this point. We are assured that the working-men of this country annually spend 3,000,000*l.* upon tobacco. If it can be proved that tobacco does not benefit, but injures both the body and the mind, then 3,000,000*l.* of the capital of the country, which in the first place is paid to labourers, and then expended by them in tobacco, is, considered as capital, rendered completely nugatory, because the 3,000,000*l.* in no way assists the production of wealth. If, moreover, it is true that tobacco cannot be used without detriment, then this 3,000,000*l.* not only does not assist, but actually is an obstacle to the production of wealth. But it will perhaps be said, Although this sum of money spent upon tobacco does the labourer no good, yet it is not with-

*Capital is frequently wasted or employed ineffectively.*

BOOK I.  
CH. IV.

out its beneficial influence; the expenditure of so much money is good for trade, and thus the labourer receives an indirect advantage. The fallacy of such a supposition will be readily understood by recalling the remarks that have just been made, which show that the labourer is benefited by the productive employment of wealth rather than by its unproductive consumption. It is, however, necessary to be extremely cautious in expressing an opinion as to whether the consumption of a particular article does the labourer good. The relations between chemistry and physiology are as yet by no means settled. The theory of food is most imperfectly understood. A chemical analysis may very possibly show that such an article as tea contains none of those ingredients which are commonly considered to nourish the human frame; and hence a rash and ignorant assertion is often made that tea is not a necessary of life, and that therefore a heavy tax upon tea is no hardship to the labourer; the tax, it is urged, is simply a salutary sumptuary law, because the consumption of tea ought rather to be discouraged than encouraged. But although tea may not nourish the body, yet it undoubtedly soothes the mind, and this is equally important; for without some such soothing influence, life would be almost intolerable, and even the body itself would be wasted by the weariness of the mind.

Enough has now been, perhaps, stated to establish the proposition that although industry is maintained by capital, yet that there is always in a country sufficient capital to support more industry, or, in other words, to administer to the production of a greater quantity of wealth than that which is actually produced.

*Fears of a  
'glut' of  
capital are  
based upon  
misconcep-  
tion.*

Intimately connected with this portion of the subject of capital there is a very widespread misconception that there would be a glut of capital if it were increased beyond a certain point; in fact, that capital might be so augmented that no industry would be found upon which it could be employed. Therefore, a certain waste of capital is considered necessary in order to prevent such a glut. Now, it has been explicitly stated that capital is the result of saving, and therefore if capital is increased, the increase must be due to greater saving. Let it therefore be supposed that the rich spend much less upon luxuries, and resolve

to employ labourers with the money thus saved. It may be imagined that if such saving were continued, our various industrial marts would soon be overstocked, and that warehouses would be filled with goods for which there was no demand. There are few even amongst political economists who do not sometimes write and speak as if they believed that the unproductive expenditure of the rich is required to give adequate employment to the poor. But if such an increase of capital as that described should occur, two suppositions may be made; an increase of population proportionate to the increase of capital may occur; or, secondly, the population may remain the same as it was, before the increase of capital commenced.

The first case presents no difficulty; the increased capital would be required to support the increased population. But the second case must be carefully considered, and it at once suggests this difficulty: if all the labourers were previously fully employed, how could the increase of capital give additional employment to labourers?

A particular point, which may be keenly disputed in an abstract science, such as political economy, is frequently completely obscured in the ambiguities of general language: and, of this, the question under discussion affords a striking example. It therefore becomes very necessary, as a preliminary process, to attribute a distinct meaning to the above expression,—‘giving additional employment to the labourers.’ The augmentation in the capital of the country has been supposed to result from the diminished consumption of luxuries on the part of the rich. It is assumed that all the labourers were previously fully employed. But a new fund, which is now intended to be paid to the labourers, has arisen from the increased savings of the rich; where, therefore, are the labourers amongst whom this increased fund is to be distributed? Those labourers, it is true, who have manufactured the luxuries which the rich now no longer purchase, will be thrown out of employment. But the capital of the manufacturers of these luxuries will be now seeking fresh investments, and will be therefore sufficient to give employment either directly or indirectly to the same number of labourers as were previously maintained by it, and therefore the new capital created by the

BOOK I.  
CH. IV.

*An increase of capital might accompany an increasing or a stationary state of population.*

*In either case the fears of a glut are imaginary.*

BOOK I.  
CH. IV.

increased savings of the rich still apparently remains unemployed. But although the assumption has been made that all the labourers were previously fully employed, yet let us consider what this means. It must be interpreted thus: That all able-bodied labourers were in full employment, and that they received certain wages for a certain quantity of work. There can be no doubt that the labourers would willingly receive more wages if they could be obtained. It is quite impossible that the wages can be increased unless the capital is increased; now, however, there is an increase of capital, and therefore the wages of the labourers will rise. If the labourers were before supplied with all the necessities of life, they in their turn will begin to consume more luxuries, and the labour which before had produced luxuries for the rich is now available to meet this new demand on the part of the labourer. It may, however, be argued that if the capital continued in this way to increase, the labourers' wages would also be constantly increasing, and at length all their wants might be satisfied. When such a happy event was consummated, then the hours of toil would be shortened, and men would not be compelled to labour so ceaselessly as at the present time. Human beings are not endowed with an uncontrollable instinct for physical toil; the wants of life must be satisfied by physical labour, but civilization has no nobler mission to fulfil than to diminish the labour which is required to satisfy the physical wants of life. Hence the vaunted progress of civilization must appear delusive to that great majority of the human race who toil for hire, and who have found that the hours of their toil have only been slightly lessened. Generations after generations pass away whose minds remain undeveloped, and whose bodies have had to work with the constancy and the regularity of a machine. Political economy will assist us in understanding the means by which the labourer's toil is to be lightened. Let it not then be called a harsh or degrading science, for no study can fill our minds with brighter anticipations for the future than one which will enable us to comprehend some of the requisites which will afford, to a greater number, "that only true and most supreme happiness—the development

of the human faculties to a harmonious and consistent whole."

Since capital is the result of saving, it is often erroneously considered that capital is wealth which is set aside with the object of not being spent; but this is a fundamental misconception, for capital cannot fulfil any of its functions except by being wholly or partially consumed. Thus, capital provides the fund from which the wages of labour are paid, and these wages are, of course, consumed in ministering to the wants of the labourer, and in supplying him with all the various necessities of life. If a man has so much wheat, it is wealth which may at any moment be employed as capital; but this wheat is not made capital by being hoarded; it becomes capital when it feeds the labourers, and it cannot feed the labourers unless it is consumed. These considerations apply to capital existing even in a more permanent form, such as machinery. All machines must in time gradually wear out; a steam-engine, durable as it may appear, is only capable of performing so much work; but a steam-engine is capital, because it assists the production of wealth, and therefore it only fulfils the functions of capital when it is in motion; but every hour that it is kept in motion contributes somewhat to its ultimate wearing out. It is therefore manifest that all the wealth of the country, in whatever form it may be, can only perform the functions of capital by being wholly or partially consumed. The capital of a country is constantly being consumed in order to produce more wealth, and therefore capital is maintained by perpetual reproduction, and not by hoarding and keeping wealth out of consumption.

The leading propositions with regard to capital have now been discussed, and they afford principles which will enable us to investigate economic problems of the greatest interest and importance. An endless variety of such problems bearing upon the subject of capital may be readily suggested, and the student should zealously apply himself to their solution. Let him not suppose that he is wasting time upon the mere rudiments of the science; he may rest assured that, if he fully comprehends the subject of capital, his future successful progress in the science is insured, and that he will become one of those who can apply the

BOOK I.  
CH. IV.

*Capital must be consumed in order to fulfil its functions.*

BOOK I.  
CH. IV.*Practical  
application of  
these  
principles.**Effects of  
a war.*

principles of political economy to those financial and social questions which are the topics of everyday discussion.

It will be, perhaps, useful to our readers if we give one or two practical applications of the laws of capital which have been enunciated in this chapter. One such application is suggested by considering the rapidity with which a country recovers from the ravages of a disastrous war. This phenomenon was first fully elucidated by Dr Chalmers. A conqueror overruns a country, and destroys every vestige of accumulated wealth which he can discover. A great portion of the food with which the labourers were to be fed is gone; machinery and other appliances with which industry is assisted are destroyed. The capital of the country appears to be almost lost, and when it is remembered that the future production of wealth depended upon this capital, it might be supposed that production would cease, and that the country must for years remain the same desolate waste. But, on the contrary, countries which have been thus ravaged and pillaged, have in a few years revived, and seemed to be as prosperous as before. The history of Athens, and the French Wars in the Palatinate, afford many striking examples of a rapid recovery from the devastation of war. The remarkable rapidity with which France recovered her commercial and financial prosperity after the conclusion of the war with Germany in 1870—71 is another example in point. Within four years of the time when her capital city and no inconsiderable portion of her territory were occupied by the invader, she seemed to have recovered more than her former prosperity. Her revenue was never in a more flourishing condition, although within this period of four years she had to pay to Germany a war indemnity of £200,000,000. This revival of prosperity admits of a very simple explanation. It has been shown in this chapter that the capital which at any time exists in a country is always sufficient to administer to the production of a much greater amount of wealth than that which is produced; or, in other words, the production of wealth which actually takes place might be effected with the aid of much less capital than the amount which is applied. There, therefore, always exists a considerable excess of capital which might be wholly destroyed without necessarily impeding the production of

wealth. The industrial efficiency of the labourer can for a time be maintained although his wages be reduced to a point which allowed no margin for luxury or enjoyment. If, therefore, in a country ravaged by war, there should be just enough food left for the labourers to live upon until the next harvest is gathered in, and if also they had the necessary agricultural implements and seed, there is no reason why the country should not soon be restored to its former fertile and well-cultivated appearance. But if the implements of agriculture were destroyed, cultivation could not proceed until they were replaced; and the after consequences of the war would be more permanently disastrous.

As a nation advances in commercial prosperity, a constantly increasing quantity of national wealth assumes a permanent and fixed form. The docks, the railways, our unsurpassed mercantile navy, the great manufactories of Lancashire and Yorkshire, with their machinery as costly as it is ingenious; these works, and not the food and clothing stored in our warehouses, are the striking evidences of England's vast accumulated wealth. If all the food was destroyed except just enough to prevent the people starving, England in one year might present an unchanged aspect of commercial prosperity; for the food which is stored at any particular time is destined to be consumed, and it is only that portion which maintains productive labourers that ministers to the future production of wealth. But if an invader should ever range unrestrained over these islands, and should destroy the wealth which exists in a permanent form, such as public works, machinery and buildings, then the disaster could not soon be repaired, and England would suffer for a far longer period than did poorer nations, conquered in more backward times. Hence the richer a country is, the more severe may be the injury inflicted on her by war, if the enemy should destroy any considerable part of the wealth which is in the form of fixed capital and which constitutes her industrial plant. If Germany had adopted this policy in her war with France, it would have been impossible for France to have recovered her prosperity with the remarkable rapidity to which allusion has just been made. Of late years a feeling of false humanity has attempted to make the rights of

*Commercial progress increases the evils of war.*

*Should  
wars be  
paid for by  
increased  
taxation ?*

private property respected in war. Life may be sacrificed with as much prodigality as ever. The foremost mechanical genius of this mechanical age is devoted to the production of weapons of death ; but civilization, it is said, demands that there should be no wanton destruction of property. No such attempt to palliate the material disasters of war ought to be encouraged ; war will be rendered less frequent, if a whole nation is made to feel its terrible consequences, instead of concentrating all the horrors in the sacrifice of thousands of helpless victims who may be marshalled at the caprice of a despot. If any nation should ever threaten England with invasion, England ought to speak in unmistakable language that her vengeance should not be confined to a retributive slaughter of soldiers, but that she would destroy all the public works upon which the wealth of the nation mainly depended. This will give a practical check to vaunting ambition, and might rouse a nation to restrain the military designs of the most despotic ruler.

This digression suggests a consideration of the much debated financial question, whether any extraordinary national expenditure, such as is caused by a war, ought to be defrayed by a loan or by increased taxation ? England has resorted to loans, and a permanent record of this financial policy is afforded by a national debt, larger than the aggregate amount of the debts of all other European nations<sup>1</sup>. Mr Gladstone in his budget-speech of 1854 evoked the enthusiasm of the House of Commons by the declaration that in future the financial policy of England was to be reversed. The expenses of the Russian War were to be defrayed entirely by increased taxation, and thus posterity would inherit the assumed advantages of that contest, unencumbered by the penalties of augmented pecuniary burdens. The virtuous resolution of Parliament was not maintained, and the Russian War added 50,000,000*l.* to our permanent debt. It would be foreign to our im-

<sup>1</sup> This was written in 1863, since which time our own debt has been considerably reduced, and means have been adopted by the creation of terminable annuities to insure a still greater prospective reduction. The debts of nearly all European countries have been greatly increased ; that of France alone amounting on 1st January, 1882 to 960,000,000*l.*, or nearly 200,000,000*l.* in excess of our own debt.



mediate subject to discuss to what an extent the present generation is justified in burdening future generations; there can however be no doubt that the whole of the money required for the Russian War might have been raised by taxation.

A loan may be obtained from two sources; it may be taken from the capital of the country, or it may be provided from increased savings. If capitalists consider that the terms offered by the Government afford an eligible investment, they may be induced to take some of the capital employed in various commercial undertakings, and lend it to the Government. Now let us trace the consequences of such a diversion of capital from reproductive industry. It may be thought that if the Government spends the loan at home, the loan has not diminished the capital of the country; it has merely caused a portion of it to be diverted to other purposes. The Government, however, will ordinarily spend the loan in warlike weapons. Cannon balls, gunpowder, and mortars are commodities which cannot be appropriated to assist the future production of wealth, labourers cannot be fed by them, and therefore when the loan is converted into such commodities it cannot form a portion of the capital of the country. If, however, the capital which has been contributed to the loan had remained with its original possessors, it would in the undertakings in which it was employed, in all probability, contribute to the production of some useful commodities which might afterwards be applied as capital. Upon such an hypothesis, therefore, the capital of the country is diminished in consequence of the loan; the labourers will ultimately suffer, because since there is less capital there will be a smaller sum to be distributed amongst them.

As a second hypothesis, let it be supposed that the loan, after being raised in a country, is productively employed by a Government. Where industrial enterprise is backward, it may happen that many important undertakings, such as railways, canals, and irrigation works, will not be carried out by any one but the Government. A loan which is raised under such circumstances will cause an augmentation in the capital of the country, unless the whole of the loan is obtained from wealth already per-

*Loans applied to public works.*

*Loans applied to unproductive purposes.*

forming the functions of capital. This is scarcely a possible supposition; there is never this active employment of capital by private individuals in countries where industrial enterprise is backward. The money lent to the Government would no doubt, to a considerable extent, be supplied from wealth which has been hoarded. The addition which may be made to the capital of a country by devoting a loan to reproductive purposes may be much greater than is here described; for it generally happens that a large portion of the loan is obtained from foreign countries. Thus the Government railways of Russia and the public works of India have been to a very large extent constructed by means of English capital. In the contrast which has just been drawn between the certain loss and possible gain which may ensue upon the unproductive or productive employment of loans, it must not be supposed that a Government is justified under all circumstances in raising loans for industrial undertakings. In the first place the interference of the Government may check private enterprise, and it is always better that trade and industry should as far as possible be left to private enterprise. Government management is almost invariably wasteful and inefficient. Even when the circumstances warrant the Government in raising a loan for some industrial work, it often happens that the advantage which such a loan might bring to the country is to a great extent counteracted by the wasteful manner in which the work is carried out. The history of the Public Works Department in India affords numerous examples of the truth of this remark.

But again, referring to loans which are unproductively expended by the Government, it may not unnaturally be asked:—Why should the unproductive expenditure of a Government impoverish a nation more than if the same amount of wealth was spent unproductively by individuals? In one sense, no doubt, a nation is not rendered poorer, as may be shown from the following considerations: Suppose, for instance, we wish to make an estimate of the whole wealth of the English nation. All the wealth possessed by Englishmen in the funds should be omitted from this estimate. If it were not so, the same wealth would be counted twice over. Suppose A has a mortgage of 10,000*l.* on B's estate. The mortgage is

wealth to A ; but it is not a part of the nation's wealth, because the mortgage simply shows that B's estate is not entirely his own property, but that A has a share of it, the value of which share is equivalent to the amount of the mortgage. Similarly the fundholders have a mortgage upon the industry of the nation ; and if the fundholders were all English, and the nation repudiated its debt, the wealth of the country would not in the slightest degree be either decreased or augmented : a most unjust confiscation of property would be perpetrated, but there would have been no destruction of wealth ; for what the fundholders would lose the tax-payers would gain. The national debt, considered in this aspect, is a mortgage upon the industry of the nation ; and the creation of a mortgage cannot diminish the wealth of a nation unless the persons who own the mortgage should be foreigners, when, of course, a portion of the national wealth is transferred to another country. These considerations show that if the raising of a loan encourages money to be saved, the loan might be spent in the most unproductive manner possible without in any way diminishing the national wealth. There is, however, a difference in the consequences which result when money is spent unproductively by individuals, and when the same money is subscribed to a loan, which is spent unproductively by Government. In the first case, where individuals spend the money unproductively, no one has to pay them anything for doing so ; but in the second case, where these individuals lend the money to the Government to be spent unproductively, the whole nation has annually to pay a certain penalty in consequence of this unproductive expenditure. The penalty paid is the interest received by the lenders of the loan.

In estimating the effects of a loan we have these general principles to guide us : The loss of the labourer is in proportion to the extent to which the loan encroaches upon the capital of the country. A loan may increase the capital of a country either by encouraging greater saving, or by inducing capital to be subscribed to the loan from other countries. In this case the labourer may receive an immediate benefit, proportioned to the increase of capital caused by the loan. Indian railways have been constructed by

*Effects of  
loans in  
general.*

loans subscribed almost entirely in England. It has been calculated that during little more than twelve years 11,000,000*l.* was paid to the natives of India for their labour upon railways; and, since this amount was imported capital, the labouring population of India derived the same advantage as if private capitalists had decided to spend an additional 11,000,000*l.* in the employment of labour. Whether the advantage is permanent or not depends on whether the railways ultimately prove to be remunerative. Although it now appears probable that the Indian railways will in the aggregate yield a fair profit on the capital expended in their construction, yet for many years they failed to yield this profit, and a heavy deficit had to be made good out of the general taxation of the country. It must be remembered that this taxation had to be borne by the whole people, many of whom lived too far from the railways to derive any advantage from the extra demand for labour which their construction created. If, however, a loan in any way causes the capital of the country to be increased, the labourers will receive immediate benefit, even if the loan is spent unproductively; on the contrary, the employers will, under the same circumstances, suffer a loss, because wages will rise as a consequence of the capital being increased.

The ultimate effects of a loan upon all classes depend entirely upon the manner in which the loan is spent. If it is spent unproductively, the whole nation will have to pay a permanent penalty for the extravagant expenditure. If it is devoted to works of industrial usefulness, which would not be carried out by private enterprise, then the nation may be greatly enriched.

In quoting warlike materials as an example of an unproductive expenditure on the part of Government, it is intended to express no opinion adverse to military preparations. Vast sums have been, and will probably again be, squandered in war; but there can be no greater impediment to the production and accumulation of wealth than a want of security from hostile attack; and therefore it is absolutely necessary, even for the interests of commerce, that the defences of the country should be adequately maintained.

*Effect of*

Let us now examine what different consequences ensue

if an increased expenditure is supplied by taxation instead of by loan. Increased taxation is obtained in different ways in different countries. In our own country there are probably only two sources available for largely augmenting the revenue. These are the income-tax and an increase of the duties upon some commodities of general consumption, such as tea. Let it be supposed that recourse is had to both these expedients. An income-tax may be paid in two ways; it may be paid out of income, or it may be paid out of capital. Thus a manufacturer who is charged with 1,000*l.* additional income-tax, may pay the amount by increased saving, or, in other words, by diminishing his personal expenditure. If this is done, his capital is in no way affected, and therefore the labourers do not suffer; the important thing for them is that no encroachment should be made upon capital. But it will perhaps be said, that if the people who pay the increased income-tax are induced to retrench their expenditure, trade will suffer in consequence of their purchasing fewer commodities, and that the labourers will thus be injured because dull trade is always prejudicial to them. But here we must once more recall the remarks we have previously made to show how little the labourer is benefited by the unproductive consumption of wealth. If the income-tax is paid from income and not out of capital, the labourers may derive a very decided advantage from an increased income-tax, because a portion of the money which is thus obtained by the Government is sure to be employed as capital, since it will be paid in wages to artizans, shipwrights, and other classes of labourers engaged by the Government. One of the advantages often attributed to a democratic suffrage is that the people have a direct interest in checking a reckless expenditure, and it is also urged that it is the interest of the rich in opposition to the poor to encourage heavy taxation. But the labourers will in every way be greatly profited by increased expenditure if the money is provided by an income-tax, which is sure to be partly supplied from increased economy, and which, in this country, it has never been proposed to levy upon the labouring population. In a country so rich as England, even a heavy income-tax would probably in the main be paid out of income, and not out of capital. Such

BOOK I.  
CH. IV.

*raising money by taxation instead of loan.*

*An income-tax, if paid out of income, does not injure labourers;*

*if paid out of capital it injures the labourers.*

a tax, therefore, would not seriously interfere with the production of wealth, but would most materially encroach upon the means of enjoyment, of the majority of those who pay it. Even in the richest country, if an income-tax continues to be increased, it must at length cease to be chiefly paid out of income. Directly it encroaches upon the capital of the country, the tax becomes doubly burdensome and disastrous, the production of wealth will be impeded, the position of the labourers must be rapidly deteriorated, and the finances of the country will be gradually brought into a most critical state. In a poor country, such as India, an income-tax is a much more hazardous expedient, than in a wealthy country like our own.

We have now pointed out some of the effects which follow both from loans and from increased taxation, and there can be little doubt that loans ought to be avoided as far as possible. A loan, however, is perfectly justifiable when it is necessary to resort to so high an income-tax that it must in great part be paid out of the capital of the country, or when taxes on commodities have been raised to the point at which further increase is attended with a diminution of revenue. In both these cases the production of wealth is at once impeded. If we had to decide between a loan and taxation as a mere abstract question concerning the production of wealth, there would be little hesitation in deciding against the loan, because a loan would generally be paid more entirely out of capital. It is, however, impossible to frame a general maxim which will apply to every case. Before a decision can be arrived at as to the extent to which additional expenditure should be met by a loan or by increased taxation, the economic circumstances of the country ought to be most carefully considered. Thus it may very possibly happen that additional taxation may be imposed without causing any serious inconvenience to the mass of the people or without to any appreciable extent interfering with industrial progress. The circumstances, however, of another country may be such as to cause the gravest evils to be associated with an increase of taxation. For example, the present financial condition of India is such as to render it impossible to raise any considerable increase of revenue from taxation without producing very serious consequences.

Past experience has shown that it is extremely difficult to raise revenue in India by any form of direct taxation, such as the income-tax; and any indirect tax is comparatively speaking unproductive unless it can be imposed on some article of general consumption. The mass of the Indian people are so poor, often earning wages of only 3d. or 4d. a day, that the only article they consume which admits of taxation is salt. The present salt duty in India, although it has been lately somewhat reduced, is still one of the heaviest imposts that is levied in any country on a first necessary of life, and additional revenue could not be obtained from it without inflicting severe suffering upon the Indian people.

These discussions upon the relative advantages and disadvantages of loans and taxation will show the importance of arranging a tax so that it should cause the least possible diminution of capital. It is, therefore, extremely impolitic to tax a raw material. Suppose it were determined to raise a certain sum by taxing cotton; a tax on cotton goods would be far preferable to a tax on raw cotton. If a manufacturer were obliged to pay 100*l.* upon a certain quantity of raw cotton, he would thus have to give to the Government 100*l.* which he intended to employ as capital, and therefore the tax would be entirely taken out of capital. But suppose the Government said, We will let you manufacture your cotton, and then you shall pay us the same amount, by levying a tax upon the manufactured goods. The result of the tax would be, that the price of cotton goods would rise, the manufacturers would be able to pay the tax out of the increased price obtained for their goods, and the tax would not, under these circumstances, in any degree diminish the capital of the manufacturers.

It will have been remarked, that every kind of wealth, which in any way assists future production, has been, in this chapter, described as capital. Capital, therefore, is not confined to the food which feeds the labourers, but includes machinery, buildings, and, in fact, every product due to man's labour which can be applied to assist his industry; but capital which is in the form of food does not perform its functions in the same manner as capital that is in the form of machinery: the one is termed circulating capital, the other fixed capital. This is a real distinction,

BOOK I.  
CH. IV.

*A general principle of taxation.*

*Circulating and fixed capital.*

from which many important consequences follow. Circulating capital is only used once in order to fulfil any particular purpose; fixed capital may continuously repeat the assistance which it lends to industry. A store of food fulfils the functions of capital when it feeds labourers, but in feeding the labourers it is consumed; it cannot repeat the service which it has rendered. But the same looms, set in motion by the same steam-engine, will continue to weave cotton cloth through a long succession of years. The same ploughs till the land for many successive crops. The capital with which a road is made does not facilitate the transport of wealth for any limited period; but, if a slight sum is spent to keep the road in repair, it will permanently serve the same industrial purposes. The capital expended on the great irrigation works of India, may, through countless ages, fertilize the same tracts of land. Circulating capital, since it is destroyed by one use, must receive an immediate return; the application of fixed capital is rewarded by industrial advantages continued for a long period of time. A farmer expects that each successive crop will remunerate him for the wages he has paid during the current year. But if he purchases a steam thrashing-machine, he does not expect that his outlay will be returned to him in one year; he hopes to use the machine for a great number of years, and thus he will be gradually repaid for his original outlay. As another example, raw material is circulating capital to a manufacturer: the raw cotton is only once woven into cloth; and the manufacturer, when he sells the cloth, is repaid for the sum which he has expended in the raw material. But the money which he has invested in fixed capital—such as the machinery used in his manufactory—is gradually returned to him. When the capital which administers to the production of any wealth is entirely circulating, the amount of wealth produced must in value be at least equal to the capital employed; for since this capital, according to our hypothesis, is circulating, it is entirely consumed by one use, and therefore the particular industry could not be remunerative unless the value of the wealth produced was somewhat more than sufficient to replace the capital consumed. All capital, as we have before said, is intended to be, either sooner or later, consumed: circulating capital



is destroyed by once ministering to the production of wealth; but capital is maintained by reproduction. Hence, since circulating capital implies immediate consumption, circulating capital must also necessarily imply immediate reproduction. Fixed capital, however, may repeat for a long period the assistance it renders to production; fixed capital, therefore, is only gradually consumed, and the amount of wealth expended upon fixed capital is not immediately reproduced. The most important practical consequences follow from these considerations. Let it be supposed that a considerable amount of capital, which has been previously employed as circulating capital, is converted into fixed capital; when employed as circulating capital it was at once reproduced, and therefore the wealth which this capital produces must at least be sufficient in amount to enable the capital to be re-created. But the same immediate reproduction of wealth does not take place if the capital is converted into fixed capital; and therefore there need not immediately be produced so large an amount of wealth as if the capital were consumed by a single use, and had, in consequence, to be at once reproduced. Now, labourers derive their wages from circulating capital; hence, if the circulating capital is diminished, their wages will temporarily fall. As an example, the construction of a railway may cause circulating to be converted into fixed capital. Suppose that 10,000,000*l.*, previously paid to agricultural labourers, is now paid to railway labourers: the agricultural labourers would consume their wages; but then their labour would at once produce something which would be again consumed, and which would be again employed as circulating capital. The railway labourers will be as usefully, or even more usefully, employed than the agricultural labourers. The nation is not made poorer by this transfer of capital from one industry to another; she has her railway instead of the commodities which were produced by the capital previously invested in agriculture. There is no diminution of national wealth; but there may be less wealth in the country available for consumption—a smaller fund, in fact, to distribute amongst the labourers, and therefore the labourers may temporarily suffer. The application of improved machinery and the construction of such works

BOOK I.  
CH. IV.

*Practical consequences of the distinction between fixed and circulating capital.*

*A temporary in-*

BOOK I.  
CH. IV.

*jury may be inflicted upon labourers by the conversion of circulating into fixed capital.*

*A permanent loss is sometimes suffered by special classes of workmen through the introduction of machinery.*

as railways will ultimately confer upon the labourers an advantage amply sufficient to compensate them for any temporary loss which they may suffer from the conversion of circulating into fixed capital. Railways and machinery have most powerfully stimulated the production of wealth, and a large amount of wealth has been produced by their aid which could never have been produced without them. Moreover, the capacity which exists in England for the accumulation of capital, quickly repairs any encroachment that is made upon her circulating capital; and therefore it is doubtful whether the labourers in this country have been even temporarily injured by the extensive use of machinery, and by the rapid development of our railway system.

But although the labourers as a body are not injured by the conversion of circulating into fixed capital, through the extended use of machinery, yet particular classes of labourers often suffer a serious and permanent injury from this cause. For instance, a man may spend seven years in acquiring special skill in performing some process of manufacture. The possession of this skill may be regarded as an important property, the pecuniary value of which to its possessor can be estimated by the difference between his wages and those of an ordinary labourer. This difference may be so great that the skilled workman can earn 4*l.* a week, while the ordinary labourer can only earn 1*l.* One day a machine is introduced which performs this particular process at one-fourth of the cost at which it was performed by the skilled mechanic. He is, of course, at once superseded; his skill, which before was worth 3*l.* a week, ceases to have any value, and he may have to descend to the condition of the ordinary labourer. In such a case the loss to the labourer is just as real as if he had been suddenly deprived of an income of 150*l.* a year, or if an owner of a landed estate suddenly found its letting value diminished by three-fourths. Many striking examples might be easily given of the loss inflicted on artisans who possess some special skill which is superseded by the invention of a machine. It is, for instance, not generally known that the curve given to the brim of the best gentlemen's hats is done by hand, and requires so much skill, precision, and nicety, that those who are en-

gaged in this particular kind of work often earn as much as 7*l.* or 8*l.* a week. A machine has already been invented which moulds brims sufficiently well for the cheaper sort of hats, and some improvement may very probably be introduced into this machine which will enable it to supersede the highly-paid labour above referred to. In this case a special class of men who can now earn 7*l.* or 8*l.* a week would have to descend to the position of ordinary workmen, and would probably not earn so much as half their former wages.

When therefore we hear of the opposition of certain classes of labourers to the introduction of machinery, we should remember that political economy affords no justification for the off-hand way in which this opposition is often spoken of as irrational and unfounded. The reality of the loss which has to be borne by the labourers ought at once to be admitted; and as the loss is brought upon them by no fault of their own, the public ought at any rate to extend to them a kindly sympathy; sometimes the labourers might be induced, if calmly reasoned with, to relinquish a useless opposition to machinery: they not unfrequently increase the loss inflicted on them through the introduction of machinery by entering into a fruitless and costly struggle to resist its use. Probably the best way for the workmen to meet such a misfortune as that just described is to endeavour to find some other branch of industry, in which the kind of skill which they possess could be made to some extent available. The hand-loom weavers of Spitalfields, instead of clinging to an industry which has been superseded, and thus gradually sinking into deeper and deeper distress, would have done far better if they had sought employment in the silk-mills in the north of England.

## CHAPTER V.

### ON THE PRODUCTIVE POWER OF THE THREE REQUISITES OF PRODUCTION.

BOOK I.  
CH. V.

*Variations  
in the pro-  
ductive  
power*

*of land.*

*labour.*

THE three requisites of production, labour, appropriate natural agents, and capital, have now been discussed. The subject of the production of wealth will not be complete without an investigation of some of the laws upon which depends the amount or degree of productiveness of each of these requisites. All the materials upon which labour and capital are employed, are produced either directly or indirectly from the land. Wool is not a product of the land like cotton and timber, but the sheep from which the wool is clipped are fed by food obtained from the land. Land, labour, and capital are, therefore, the three requisites of production. The most casual observer will have noticed that each of these varies greatly in productiveness at different times, and in different places. Some of the richest tracts of land in England were not long since an uncultivated morass; Cambridgeshire and Norfolk are now amongst the largest corn-producing counties, yet Cambridge was once the home of the bittern and snipe, and Norfolk was little better than a rabbit-warren. At the present time England possesses land of every degree of fertility; the rich loam land of Sussex and the Lothians will let for 4*l.* an acre; and large tracts of land on the moors of Yorkshire, if given to a farmer rent free, would not pay to be cultivated. There is also the greatest difference in the efficiency of labour. It has been calculated that an English mower will do as much work in a day as three Russian serfs, and the contractors for the French railways found that an English navvy was worth two French labourers. Such differences

in the value of labour mainly depend upon superior strength and stamina, but still greater differences arise from superior skill; many operations in the manufacture of commodities require, perhaps, a delicate touch or a quick dexterity which no amount of untrained labour could supply. Capital, directed by superior knowledge, may effect what before was impossible; mines are now worked which no amount of labour or capital, unaided by the steam-engine, could have drained; and the application of a hundred times as much labour and capital would not produce the cloth which is now woven by the spinning-jenny and the power-loom. These considerations may, perhaps, suggest the opinion that we shall be obliged to call in the assistance of every science in order to investigate the laws which determine the productiveness of land, labour, and capital. For it may be said, agricultural chemistry makes known the constituents upon which depend the fertility of the soil; the difference in the stamina and strength of English and Russian labourers must be elucidated by appealing to physiology, and to other sciences. Again, the efficiency of machinery must be explained by the principles of mechanics. It, therefore, manifestly becomes necessary to place some limitation upon the scope of political economy, unless it is intended to embrace a vast number of other sciences. Now, it will be remembered, that no accurate definition of political economy was attempted to be given at the commencement of this work. It is far better that the reader should have the definition evolved for him as the subject gradually progresses.

In the introductory chapter we described political economy to be the science which investigates the laws that determine the production, the distribution, and the exchange of wealth; it was, however, at the same time stated that this was rather a general description than an accurate definition. It is not an accurate definition, for it is already perceived that, even concerning the first branch of the subject, political economy does not investigate all the laws which concern the production of wealth; for if it did investigate those laws, chemistry, physiology, mathematics, and various other branches of knowledge, would form a part of the science of political

and capital.

*A necessary limitation of our inquiries into the cause of this variation.*

economy. It will be necessary, therefore, to place some limit upon our investigations; and the necessary limitation is provided by assuming that the facts which are acquired from other sciences are known, or at any rate are supposed to be true. Thus political economy assumes all that we can tell at the present time with regard to the fertility of the soil. It is not the business of political economy to decide whether chemistry can suggest any particular manure which will greatly increase the productiveness of the land; but if the land, by any such cause, is rendered more fertile, then political economy would trace the consequences of this increased fertility upon the production, the distribution, and the exchange of wealth. Again, it would be foreign to the subject of political economy to prove, by a physiological argument, the causes upon which the inferior strength of the French and Russian labourers depends; but political economy, assuming that this inferiority exists, without explaining its cause, or suggesting a remedy for its removal, traces its consequences upon the production, the distribution, and the exchange of wealth.

Returning now to the immediate subject of this chapter; we have to consider the productiveness of land, labour, and capital, not as they depend on physical causes, but as they are determined by production on a large and small scale, by division of labour, by the accumulation of capital in joint-stock companies, and by various other such circumstances which we shall proceed to notice.

The productiveness of land does not depend entirely upon its fertility; for the quantity of labour and capital which may be required to make the produce raised from the land available for consumption forms a very important element in estimating its productiveness. The rich alluvial plains of the Mississippi are almost unsurpassed in fertility; but a considerable portion of the wheat which is grown there is consumed in Europe; and the cost of carrying this wheat to the European markets is virtually so much deducted from the productiveness of the soil upon which the wheat was grown. When the valley of the Mississippi possesses population so dense as to consume all the wheat there grown, the land, although it may be not more fertile, will be more productive of wealth; for

*The productiveness of land.*

the wheat will no longer be wanting an utility, which, amongst others, gives it the character of wealth, namely, of being in the place where it is required to be consumed: an utility which cannot now be conferred upon it without considerable cost. Everything, therefore, which facilitates the transport of produce, increases the productiveness of land. A great portion of the most fertile land in the world is entirely unproductive. Products might be raised from it which would be eminently serviceable to man, but various obstacles interpose which render these products unavailable for consumption. The most splendid pine-trees are often seen rotting on the sides of the Swiss mountains, because it would cost more to bring the timber to market than it is worth.

*It is affected by the facilities of transporting produce.*

The increase of population may create a demand for a product, and thus make the land from which it is obtained more productive. The great natural pastures of Australia have for many years supported immense flocks of sheep. In England the carcase of a sheep is far more valuable than its wool; but the reverse was the case in Australia—the wool was valuable, the carcase was almost worthless. Wool is not a bulky commodity, and the cost of sending a fleece from Australia to England is comparatively trifling; but so great a quantity of meat was almost worthless to so sparse a population. The gold discoveries at once caused the population of Australia to be largely increased; the mutton which had been before wasted was now required; the sheep became much more valuable; and the pastures upon which the sheep graze thus became far more productive of wealth, although the fertility of these pastures has remained unchanged.

If the productiveness of labour is estimated by the amount of wealth which is produced by a certain quantity of labour, then the productiveness of labour is partly the cause and partly the effect of the fertility of the land. "Quantity of labour" may be conveniently defined by the labour of a certain number of men working for a certain number of hours per day. The amount of wealth which is produced depends jointly upon the productiveness of land and the productiveness of the labour employed; but as remarks have already been made upon the productiveness of land, we shall now proceed to

*The productiveness of labour.*

*It is affected by the fertility of land,*

BOOK I.  
CH. V.by national  
character,by the in-  
crease of  
capital,and by the  
education  
of the  
labourers.

consider some of the causes upon which, under any assumed set of circumstances, depends the productiveness of labour.

Energy and intelligence are two of the most valuable qualities which a labourer can possess. It does not, as has been previously observed, appertain to our subject to attempt a full explanation of the causes which determine differences of national character. The Irish labourer, for instance, does not possess that steadiness and dogged determination which distinguish the English labourer. Sir T. Brassey's book, called *Work and Wages*, gives many striking examples of the different industrial qualities possessed by workmen of different nations. He gives the palm to the English labourer; and states that although wages are higher in this country than in any other European country, yet bridges, viaducts, tunnels, and all engineering works, can be executed at a cheaper rate in England than in any other country in the world.

Labourers have generally been so imperfectly educated that the economic advantage of intelligence to the labourer has been, and is still, most inadequately appreciated. Almost every industrial operation will be better and more expeditiously effected by the intelligent workman. The agricultural labourer is very generally looked upon as requiring no special skill or intelligence; but an experienced English land-agent has stated that in his opinion the reason why the land in the Lothians lets at a higher rent than equally fertile land in England, is that the Scotch labourers and farmers are, as a general rule, better educated and consequently more intelligent than labourers and farmers in England. This opinion has been confirmed by a large landowner and practical agriculturist, the Marquis of Aylesbury, who in a speech to his tenantry, in November 1874, said that he found that the farms that were the best cultivated were in those counties where wages were the highest, and he attributed this to the circumstance that in these counties there were better and more skilled workmen. If therefore the English agricultural labourer becomes properly educated, it may be found that the productiveness of the land is as much increased as if an important addition had been made to its natural fertility. Education also produces a most



decided improvement in the moral character of the workman. If workmen are dishonest, the loss which is incurred is in no way represented by the amount of property which may be stolen; if reliance cannot be placed upon labourers, they must be superintended and watched, and thus their labour is rendered less productive, because a certain portion of the wealth which is produced has to be paid to overlookers and others who would not be required to watch the labourer if complete confidence could be reposed in him. Thus if one overlooker is required to superintend the labour of twenty men, and if he is paid, as he probably is, twice as high wages as the ordinary workmen, it is obvious that the amount paid in labour for the production of a certain commodity is just one-tenth more than it would be, if it were not necessary to employ the overlooker. If therefore his services were dispensed with the productiveness of labour would be increased, which would render it possible either to cheapen the commodity to the consumer, or to make an addition to the profits of the employer and the wages of the labourer. The productiveness of labour depends upon a great variety of other personal qualities possessed by the labourer. Intemperance, for instance, makes a labourer less able to do his work, and his labour is sure to be more irregular.

The productiveness of capital may be estimated by the amount of wealth which is produced by the application of a certain quantity of capital. Capital is, of course, capable of producing more wealth when it employs efficient labour and is applied to fertile land; but there are certain circumstances which tend to make capital more productive, whether the land and labour are good or bad. Every improvement in any of the processes of industry makes capital more productive. Without the assistance of the steam-engine, the capital at the present time existing in the country would not suffice for the production of more than a small portion of the wealth which is now annually produced. Machinery causes a greater quantity of wealth to be created with the assistance of a smaller amount of labour and capital. But the productiveness of capital is popularly estimated according to a different standard; for capital is conceived to be productive when the profits obtained by the capitalist are large. For instance, a farmer

*The productive-ness of capital.*

*It is affected by improvement of industrial processes;*

might say, It is true that in consequence of the advance in agricultural science a great deal more produce is grown upon a farm now than a few years since; but the rents which the farmers pay have increased; and therefore the profits of the farmer are not larger now than formerly. His capital, therefore, gives him no greater return, and he might for these reasons consider that the productiveness of capital had not been increased. This, no doubt, might be the case, as far as the farmer himself was concerned; but the productiveness of capital depends upon the amount of wealth produced, and not upon the particular manner in which this wealth may be distributed amongst the different parties who have a claim to be remunerated. The laws which determine the relative value of the remuneration received by landlords, capitalists, and labourers, will be explained in those chapters which treat of the distribution of wealth.

Hitherto, the great social and economic importance of securing the greatest efficiency of labour, by giving the labourer some pecuniary interest in the work in which he is employed, has been most imperfectly understood. The relations between employers and employed will never become satisfactory until they are more united by the bonds of mutual interest. Too many of our labourers pass a life of hopeless drudgery; they in no way share their master's prosperity. In some of the succeeding chapters of this work, the great advantages of co-partnership and cooperation will be shown; for it will be explained that under such systems not only has the labourer been socially and morally improved, but capital and labour have in this way been rendered more productive, by calling forth the highest and most skilled efforts of the labourer. Improved relations between employers and employed might render unnecessary a great proportion of the present large outlay upon wages of superintendence, which, as above explained, so seriously diminish the productiveness both of labour and capital.

As yet only the general causes on which the productiveness of land, labour, and capital depend have been mentioned. Some of the more special means by which the efficiency of the three agents of production may be increased must now be considered. As a first example

we will refer to the striking illustrations employed by Adam Smith, which demonstrate the advantages derived from the division of labour. A pin passes through about eighteen processes. The metal has to be drawn into wire, the wire has to be cut a proper length, the end sharpened, the head must be made and fastened to the pin, the pin must be burnished and then properly packed. The most skilled workman could not make more than twenty pins per day if he had himself to attend to all the processes through which the pin passes. But when the labour of pin-making is divided, the various processes being performed by different workmen, ten workmen will make 50,000 pins in a day. Without division of labour the ten workmen would only make 200 pins per day, and thus it would appear that in this case a proper division of labour increases its productiveness more than two hundredfold. Other examples, even more striking than the one just quoted, might be readily selected. M. Say says that, in the manufacturing of playing cards, there are seventy-two distinct operations. When these operations are appropriated to different workmen, 15,500 cards have been made in a day by thirty workmen; but if a single workman had to perform all the operations himself, he would not make more than one or two cards per day. The increased efficiency which is thus conferred upon labour is, according to Adam Smith, due to three causes:

1. The increase of dexterity in every particular workman.
2. The saving of the time which is commonly lost in passing from one species of work to another.
3. The invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many.

The greatest influence no doubt is produced by the first of these causes, namely, the increase of dexterity of the workman. The effect of continuous practice in performing both mental and physical operations is most strikingly exhibited in the increased quickness obtained. By practice the eye and hand may learn to work in perfect unison, and the hand and eye are made to obey with intuitive quickness the behests of the will. The glass-blower appears to give a casual glance at a decanter, wishing to

BOOK I.  
CH. V.

*Division of  
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*for three  
reasons.*

*The dex-  
terity of the  
workman is  
increased.*

make one like it. He places some molten glass upon his blow-pipe, and after a few minutes of blowing and twisting a decanter is made, and between it and its model the nicest eye can detect no difference in size or shape; yet science can scarcely analyse or explain the marvels of this extraordinary handiwork. No rule but the eye has been employed to measure, the eye looks at the decanter, and the hand is thus directed. The shape of the decanter is produced by a combination of different forces, which the most refined analysis of the mathematician could scarcely investigate; there is the force of expansion caused by the blowing, and centrifugal and other forces are brought into action by the twirling and twisting. Many of the operations of industry need a dexterity which can only be acquired in childhood; the pliant fingers of youth must be moulded to the work. When, therefore, the distinct operations of any industry are performed by different workmen, then each of these operations may become a separate trade, for which men may be separately trained. If all the processes of pin-making were performed by one man, he would not have sufficient practice to acquire the requisite dexterity in any single operation, and, therefore, if there was no division of labour in pin-making, all the labour employed must be, comparatively speaking, unskilled, and consequently very inefficient. The precision and quickness acquired by practice are not in any way confined to the mechanical operations of trade. What can be more extraordinary than the precision and quickness of the accomplished and practised musician? If the theory of violin-playing is explained, it seems to require a skill beyond the reach of man. The fingers appear to move with careless rapidity over the strings, yet the accuracy of each note depends upon the string being touched with the strictest correctness at some particular point.

Another advantage results from the dexterity of the superior workman, for he will use all the materials employed with the greatest possible economy; nothing is wasted by his blunders or mistakes.

Later writers on political economy, and amongst them, in particular, Mr Mill, consider that too much importance has been attributed to the second of the three causes

*The time  
of passing  
from one  
operation*

which, according to Adam Smith, explain the increased efficiency of labour when the distinct operations of industry are properly apportioned amongst the workmen employed. A great deal of time is undoubtedly wasted if a workman has often to pass from one species of work to another, and this waste is of course obviated when a labourer can steadily keep throughout the day at the same kind of work. But Adam Smith exaggerates the nature and the amount of the advantages which may be thus secured, and omits to notice some counterbalancing disadvantages which may very possibly occur. Adam Smith says, "A man commonly saunters a little in turning his hand from one employment to another. When he first begins the new work he is seldom very keen and hearty; his mind, as they say, does not go to it, and for some time he rather trifles than applies to good purpose. The habit of sauntering and of indolent careless application which is naturally or rather necessarily acquired by every country workman, who is obliged to change his work and his tools every half-hour, and to apply his hand in twenty different ways almost every day of his life, renders him almost always slothful and lazy, and incapable of any vigorous application even on the most pressing occasions." There is nothing in this passage absolutely incorrect; it is, however, truth overstated. Each of the circumstances mentioned by Adam Smith produces some of the influence he describes; but his remarks would seem to prove that all those whose employments are various must be slothful and indolent, while the reverse is often the case; labourers frequently become quicker and more intelligent when the monotony of their employment is relieved by some variety. Waiters in large establishments are proverbially quick in their movements, and yet before they finish one thing they are often called upon to do a dozen different things. Gardeners are generally extremely intelligent, and yet there is the most constant variation in their employments. Before machinery was so largely used in agriculture as it is at the present time, the work of the agricultural labourer was far more monotonous. There are many labourers still living, who during twenty years of their life spent ten hours a day during ten months of the year in thrashing with the flail. Such a labourer might

BOOK I.  
CH. V.

to another  
is saved;

although  
the advantage of this  
has been  
exaggerated.

BOOK I.  
CH. V.

*The invention of machines is perhaps facilitated;*

*but this is doubtful as a general principle.*

*The invention of machines, however, facilitates the division of labour.*

perhaps be somewhat stronger as a thrasher, but he passed his life as a machine, and it was impossible that an active intelligence should be preserved through such an ordeal.

The third advantage which arises from the division of labour as enumerated by Adam Smith is, "the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many." There is some ambiguity in Adam Smith's conception of the causes which influence the invention of such machines. Returning to our original example, each of the workmen employed in pin-making has his attention concentrated upon some distinct operation of the manufacture, and it is therefore maintained that he will be more likely to suggest some improvement in the particular operation in which he is constantly engaged, than would another workman whose attention is distracted by a great number of the processes of pin-making. The supposition may be verified by some striking instances. The boy whose only employment consisted in opening and shutting the valve of a steam-engine invented a self-acting apparatus, which had not suggested itself to Watt and other accomplished mechanicians. The spinning-jenny and the mule were invented by working men; but there is no general principle which regulates the invention of machines of industrial usefulness; many most important mechanical improvements have been suggested by those who perhaps for the first time may have watched the operations of a particular industry. Novelty has often been the prompter of an invention, and improvements in machinery have often, as it were, been forced upon a trade. The practical advantage of the steam thrashing machine was proved long before the farmers could be generally induced to use it. Routine has often so dulled the minds of those who are employed in some special industrial operation, that they are reluctant to understand that any improvement in the processes of a particular industry is required.

Although division of labour may not be so entirely the cause of mechanical inventions as is sometimes supposed, yet there can be no doubt that a mechanical invention almost always induces a greater division of labour. When a machine is at work there are various operations performed by it which must be separately attended to. The

machinery employed in a cotton-mill regulates the extent to which the division of labour is carried: for every process through which the cotton passes, from the time it is cleaned until it is woven into cloth, must be separately attended to, and thus, division of labour is enforced by the application of machinery. The introduction of new machinery may necessitate a much greater division of labour. Boat-building has not hitherto required any great division of labour. A most ingenious machine, however, has been invented by an American, Mr Nathan Thompson, by which a boat may be completely built in a few hours. If boats are thus built, the nature of the machine will exactly determine to what extent division of labour will be henceforth practised in boat-building, for the distinct operations performed by the machine must be attended to by a certain number of workmen.

Mr Babbage pointed out a most important advantage resulting from the division of labour which was altogether omitted by Adam Smith. Our former example will most clearly illustrate this advantage. The labourers who are employed in the various operations in pin-making receive wages which vary greatly. Boys can fasten on the heads of the pins with as much facility as men; girls can sort and pack the pins with great rapidity. Some of the other operations of pin-making, such as drawing the wire and pointing the ends, are performed by highly trained and very skilled labourers, and consequently the remuneration received varies from fourpence-halfpenny to four shillings per day; and in other branches of industry there are even greater differences than these. Mr Babbage states that the various parts of which a watch is composed employ a hundred distinct trades, and the skill required in some of these trades is much greater than in others. A watch-case is, comparatively speaking, a simple article to make, whilst on the other hand, some of the parts on which the accuracy of a chronometer depends, must be so delicately adjusted that only very few workmen ever acquire the refined skill which is needed. These workmen therefore possess a virtual monopoly, and can obtain wages far exceeding any which are usually paid. If there were no division of labour in pin-making, each workman who made the pins must possess the skill which is required for each of the opera-

*Another advantage of division of labour pointed out by Mr Babbage, viz. classification of labourers.*

BOOK I.  
CH. V.

*Economic  
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thus ob-  
tained.*

tions. He must be able to sharpen the pins, and the labour of a man who can sharpen pins is, as we have seen, worth four shillings per day. Without division of labour the workman cannot spend his whole time in sharpening the ends of pins; he will have to devote a portion of his time to fastening on the heads of pins, and is then doing work which is only worth fourpence per day, thus incurring the most serious waste. Hence a workman would be compelled to produce what was worth only fourpence per day when his labour might produce what was worth four shillings per day. Mr Babbage has attempted to form some estimate of the loss which would be thus incurred, for he has calculated "that even supposing a workman could make a pound of pins in the same time in which ten workmen combining their labour can make ten pounds, they would cost in making three times and three-quarters as much as they now do by means of the division of labour." A still greater loss would be incurred if the mechanician upon whose skill the accuracy of a chronometer depends had to waste his time, and perhaps destroy the delicacy of his touch, upon some of the rougher work by which parts of the watch are made. Labour is most efficient in the production of wealth when each individual can be employed upon work which is best suited to the skill and physical strength which he possesses. The perfection of modern manufacturing industry makes such a minute division of labour possible, that the labour which is performed can be so apportioned as to suit the capacity of each individual workman.

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the demand  
for the com-  
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It has often been remarked that the demand for any particular commodity places a practical limit upon the extent to which division of labour in its manufacture can be carried. There are in this country few commodities in such a position. But to take a hypothetical case; let it be supposed that a pin manufactory is established in a new colony, the population of which is small. If there is such a division of labour that ten men are employed in the manufactory, there would be made, as has been before stated, fifty thousand pins in the course of a day. The colony might only have a demand for half of this number; and hence, if we suppose, for the sake of simplicity, that the colony has no export trade, there will be more pins made than are



required. The pin manufactory might be closed during a portion of the year, in order that a smaller number of pins might be made. But in order to avoid the loss which is always incurred when a trade is carried on at intervals, the pin manufacturer would probably find it more to his advantage to employ a smaller number of men. If only five were now employed, there would not be so great a division of labour, and the labour of the five workmen would not be so efficient, for the number of pins now made in the course of the year would fall far short of one-half of the number previously made, although only double the quantity of labour was then employed. In England there are few things which are manufactured at an increased cost in consequence of the limited demand existing for them. If the stereoscope, for example, were only used as formerly for scientific purposes, and employed, like many other optical instruments, by professors to illustrate the laws of optics, a stereoscope would be far more expensive than it is now. The few which would then be purchased in the course of a year would be made, speaking comparatively, without any division of labour; it would not be worth while specially to apply any machinery to the construction of stereoscopes. But the stereoscope has now become a drawing-room toy, and tens of thousands are made every year. The price of stereoscopes has consequently been greatly reduced; so many are now manufactured, that workmen may be employed entirely in constructing them; and each part in a stereoscope may, like the various parts of a pin, be separately manufactured. All the advantages of division of labour can in this manner be secured; the dexterity of the workman is increased; machines, too, will be probably invented specially to facilitate some of the operations in the construction of the stereoscope, and these various operations can now be apportioned amongst workmen according to their skill and capacity. The practical result of this is strikingly exemplified in the fact that a stereoscope which now can be purchased for three shillings could not, a few years since, be obtained for less than a pound.

The efficiency of labour as an agent of production depends as much upon the combination or cooperation of labour as upon its division. Labour may be combined in two

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BOOK I.  
CH. V.*as division  
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cloth.*

different ways, and these have been described by Mr Wakefield as simple and complex cooperation. When several workmen combine their labour in the same way to do the same thing, it is called by Mr Wakefield simple cooperation; and its importance can be readily illustrated. Work has often to be done which requires the strength of a great number of men; a weight may have to be lifted which could not be lifted by any one man. Without such a cooperation of labour none of the works which mark the civilisation of a country could have been accomplished; for unless labourers united their strength and skill, bridges could not be built, railways could not be made, mines could not be dug, and buildings could not be erected. The assistance which labourers engaged in one employment lend to those in another was described by Mr Wakefield as the complex cooperation of labour. He was the first who adequately explained the most important considerations which arise from such a combination of labour. Political economists, guided by the example of Adam Smith, had previously almost entirely confined their attention to a very subsidiary branch of the subject, namely, the division of labour. We have already indirectly remarked upon the great extent to which different employments combine to assist each other. The manufacture of cotton cloth was mentioned as an example, to show how various are the different classes of labourers who assist in the production of even a simple commodity. We are led into endless ramifications in attempting to trace the different kinds of labour, either directly or indirectly brought into requisition, from the time that the cotton seed is planted in the swamps of Georgia until the cloth is woven in the looms of Manchester. There are distinct sets of labourers employed in tilling the cotton fields, in carrying the cotton to the port, in navigating the vessel in which it is shipped, in unloading the cotton at Liverpool, and then in transporting it to the mills of Manchester. All these different classes of labourers have been directly engaged in bringing the cotton to the place where it is wanted by the manufacturer. It would be vain to attempt a complete enumeration of all the different labourers who have indirectly assisted in bringing the cotton to market. There are the shipwrights who have built the ships, the labourers who

have constructed the roads along which the cotton is carried, and the artizans who have made the tools with which the cotton fields are cultivated.

There is, as it were, a tacit compact between each individual and society in general, that the commodities which he consumes will be produced for him by other classes of labourers. If there were not confidence that such a compact would be realised, society would return to its primitive type; for each man would have to live on his own plot of land, and every commodity which he consumed would have to be produced by himself. If this is done in any country to a large extent, the country must be poor and backward. Mr Wakefield pointed out the important bearing of such considerations upon colonisation. The English Government had frequently encouraged a system of colonisation which tended to impoverish a colony, by impeding this complex cooperation of labour. In order to stimulate emigration, each family obtained from the government a certain area of land in fee-simple, and thus a new colony was dotted over with the isolated settlements of a great number of distinct families, who lived so widely scattered that they could hold but slight intercourse with each other. Each family had, therefore, to produce for itself almost everything it required. Under these circumstances there could be little commerce or trade, and the country necessarily remained in almost a stationary condition. The people in one sense were not poor; for the virgin fertility of the soil supplied them abundantly with the ordinary necessities of life; but there was an almost complete absence of cooperation of labour. One of these families might possess a superfluity of food: there might be some commodity which, in a particular situation, could be easily produced, yet it could not be exchanged for some other commodity which a family might particularly want, and which it might, perhaps, fail to obtain, even by the application of the greatest amount of labour. A colony in this condition derives scarcely any benefit from such great natural advantages as a genial climate, great mineral resources, and vast tracts of fertile land, as yet untilled and unappropriated. Therefore, Mr Wakefield emphatically insists that a government, when establishing a new colony, ought not to grant to emigrants settlements of land, far distant, and widely scattered,

*Bearing of the principle of combination of labour upon colonisation.*

without at the same time taking steps to encourage the growth of a town population. The settlements which are granted by the government ought to be concentrated as much as possible, and should, in the first place, be not too remote from the towns. There will then at once arise a cooperation between the industry of the town and the industry of the country. The industry of the town will supply the inhabitants of the country with the commodities which they found most difficult to obtain; and the town population will have an active demand for the food and other natural products which in the country can be raised in such plentiful abundance. The efficiency of labour will thus be greatly increased; for, with such an interchange of commodities, a family which could previously do little more than supply itself with food from a tract of land, can now not only obtain, with the same labour, all the food it requires, but can also purchase from the town population articles of utility and luxury before unattainable. Such a colony will rapidly advance in wealth; roads will be made, and other industrial appliances will be carried out, which will powerfully stimulate the rising commerce.

*This principle exemplified in Australia.*

It was at first supposed that the gold discoveries in Australia would cripple its agriculture; that labour would be drawn from the farm to the gold mine; that the wages of agricultural labourers would greatly increase; and that under such difficulties agriculture must decline. But although this did in the first instance take place, yet agriculture speedily recovered in Australia, and has within the last few years rapidly advanced. The reason is that the gold discoveries caused the town population to be largely and suddenly increased, and the food which such a town population required was supplied from the agricultural districts. Those who sold the food could purchase, in return, all the products which the commerce of Europe provides; and Victoria has, in a few years, advanced from an aggregation of isolated settlements to the position of a prosperous country, with all the appliances of the oldest and most thriving commercial community. The large yield of gold since the gold discoveries is generally considered to be the source of the increased wealth of Australia. As Prof. Cairnes well remarked<sup>1</sup>, the extent to which the gold

<sup>1</sup> *Essays in Political Economy, Theoretical and Applied.* By the late Prof. J. E. Cairnes.

discoveries have enriched Australia can be measured by the degree in which she has parted with this gold. In other words, she has been enriched, not by keeping it, but by sending it away in exchange for products from other countries. The gold may have been the primary stimulus of her prosperity; but the gold which has been produced most inadequately represents the extent to which her wealth has been augmented. Not only has all her labour, whether agricultural or not, been rendered more efficient by the increased co-operation of labour which is now practised there, in consequence of the growth of the town population; but even her land has been rendered far more productive of wealth, because, at an earlier period, much of the produce which was obtained from it was not required, and therefore could not be accounted wealth.

There cannot be any extensive cooperation of labour between one employment and another, or between one district and another, unless the means of communication are good. Nothing, probably, has more contributed to perpetuate the poverty and backwardness of India than the want of good roads. There, it frequently happens that one district can scarcely lend any assistance to another; an interchange of commodities, which would be advantageous to every party, is often prevented by the want of a road. During the terrible famine which ravaged the North-West Provinces, in the year 1860, rice which was in one district at the famine price of four rupees per maund of 83 lbs., was selling in adjoining districts at less than two rupees per maund. As long as such occurrences can take place, India must continue poor, her resources must remain imperfectly developed, and her labour must be comparatively inefficient. A village community virtually isolated from the rest of India cannot now raise that produce for which their land is best adapted, but must cultivate it with a view of supplying themselves with the first necessities of life. Manchester would, no doubt, annually purchase of India many million pounds' worth of cotton; but cotton will not be produced on any large scale until the people of India feel that if they grow cotton they will be able to exchange it for food and other necessities.

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BOOK I.  
CH. V.

*The various functions of capital illustrate the same principle.*

*Arrangement of the subject.*

The remarks which have been made to illustrate the functions of capital, afford striking examples of the complex cooperation of labour. An individual may save the fund which forms his capital from a great variety of sources. The wealth which he has thus saved, he will probably embark in a great number of different investments, and in this way assist the labour of those engaged in the production of various kinds of wealth. Part of his capital will probably be devoted to the trade in which he is engaged; and he will perhaps deposit the remainder with his banker, by whom it would be lent to numerous traders to support them in their business. All commerce, in fact, forcibly exemplifies the cooperation of labour, not only between different employments, but between different countries. England gathers wealth from every quarter of the world, but at the same time she equally enriches the countries with whom she trades.

In an earlier part of this chapter, we considered the increased efficiency given to labour, when the distinct operations of any industry are performed by separate sets of workmen. In this case, workmen who are differently employed combine to assist each other in the production of the same commodity, and hence division of labour is an instance of the complex cooperation of labour. We have therefore departed from scientific accuracy in our arrangement of this chapter, and, partly in deference to popular opinion, have given precedence in our remarks to a discussion of the advantages of division of labour. Political economists following in the steps of Adam Smith have restricted the subject of the division of labour to its narrow sense. The reason of this may perhaps be, that the illustrations used by Adam Smith have made the division of labour one of the most popular parts of political economy; and thus its importance, compared with other portions of the subject, has been greatly exaggerated.

## CHAPTER VI.

### PRODUCTION ON A LARGE AND A SMALL SCALE.

IF we had not feared that the last chapter was becoming too long, we should not have placed the subject we here propose to discuss in a separate chapter, because the carrying out of production on a large and a small scale exerts a very powerful effect upon the productive powers both of land, labour, and capital.

The comparative advantages of production on a large, and production on a small scale, depend upon conditions which may vary greatly at different times, and in different employments. Every extension of machinery no doubt tends to give an advantage to production on a large scale. In the days of hand-loom weavers, little would have been gained by gathering them together into large buildings, such as the mills of Manchester. Each hand-loom weaver worked for himself; he needed not the assistance of others, and therefore there was no reason why he should not work in his own cottage. But the introduction of machinery has divided the work which was previously done by the hand-loom weaver, into a great number of distinct operations; and in this way machinery renders production on a large scale absolutely necessary. But to what extent it is advantageous to increase the scale of production, whether it is more profitable to erect a mill containing 10,000 spindles, or two mills containing 5,000 each, will be most correctly determined by those engaged in the trade. The comparative economy of working large and small mills is sure to be quickly ascertained by the manufacturers themselves; there can, however, be no doubt that a small manufactory will have little chance of competing with a large one, if the small manufactory is not large enough

BOOK I.  
CH. VI.

*Comparative advantages of production on a large and small scale.*

BOOK I.  
CH. VI.*Advantages of large manufactories.*

for the efficient working of the most complete machinery used in the trade. Again, a small manufactory cannot compete with a large one, if in the one there is a less complete division of labour than in the other. A pin factory which employed ten men would produce pins at a much smaller cost than a factory in which only five men were employed. The labour of superintendence generally forms a comparatively larger item in small concerns than in large ones; for instance, each room in a cotton mill may require an overlooker, whether a hundred men are working in the room, or two hundred. A steam-engine must be constantly watched by an engineer, whether the engine is fifty-horse power, or a hundred-horse power; but all such questions concerning the greater or less economy of business arrangements will ultimately be decided by practical experience. There is at the present time a very decided tendency to increase the scale of production, and this tendency is particularly shown in those vast manufactories and warehouses which exemplify the wealth and energy of Lancashire and Yorkshire; hence we must conclude, that production on a large scale, especially in the manufacturing districts, is rapidly becoming more advantageous. In fact, we have ascertained that a cotton mill containing 10,000 throstle spindles can be worked with a capital of 20,000*l.*, whereas a mill with 5,000 spindles requires a capital of not less than 11,000*l.*

*The scale of manufacturing operations is limited by the demand.*

It was remarked in the last chapter that the extent of the demand places a limit upon the division of labour. But the extent of the demand influences in a much more decided manner the scale on which the production of any commodity can be carried on. A very serious loss would be incurred if the demand for any commodity was not sufficient to take off all that might be produced by the machinery and plant erected for its manufacture. Machinery when unemployed is capital lying idle, and the workmen when thrown out of employment could only be kept together by paying them some portion of their wages. This would represent an unproductive employment of capital, but if the labourers were not thus kept together, when work was resumed new and untrained hands would have to be employed. Machinery also, if kept idle, frequently suffers great injury. The fluctuation



in the demand, when it is small, is comparatively much greater than when the demand is large.

Even if production on a large scale is very advantageous, production on a small scale may still be very much practised. Let us again use our previous example, and suppose that a cotton mill containing 20,000 spindles can be worked at a much cheaper rate than one containing 5,000; but a capital of nearly 40,000*l.* may perhaps be required to work a mill with 20,000 spindles, whereas a capital not much exceeding 11,000*l.* would probably suffice for a mill with 5,000 spindles. The number of individuals who possess a capital of 40,000*l.*, and who are willing to invest it in a cotton mill, is very limited, and therefore there can only be a limited number of mills with 20,000 spindles. These mills may not suffice to spin all the cotton for which there is a demand, and therefore other and smaller mills must be worked. It is true that the small mills could not remain open if they had to compete with an unlimited number of large mills; but as the number of these is virtually restricted, the small mills may be still worked at an advantage, although the profits obtained by these mills may fall far short of the profits obtained by the larger ones. Large capitals thus obtain an advantage, and possess as it were a monopoly; we shall treat this subject at considerable length in our chapters on profits.

It may naturally be supposed that, in a wealthy country like England, production on a large scale when advantageous will never be restricted by the causes to which we have just alluded, for it may be said that if the individuals who have sufficient capital to work large mills are limited in number, there will be no difficulty in gathering together the requisite capital by means of joint-stock companies, and that such companies will avail themselves of the advantages of a large production, and thus drive the small producers out of the market. But joint-stock companies labour under many difficulties; and although they secure the advantages of producing on a large scale, yet in many industrial occupations, joint-stock companies cannot compete with the energy of the individual trader or manufacturer. With one or two exceptions there are no individuals who have capital enough for the con-

BOOK I.  
CH. VI.

*Production on a small scale may maintain itself, though at a disadvantage.*

*The advantages of production on a large scale only partly attainable by joint-stock companies,*

*owing to  
the want of  
interest on  
the part  
of the  
managers.*

struction and maintenance of such works as railways, docks and canals; and therefore such undertakings must be carried out by joint-stock companies. But if a joint-stock company conducts some ordinary business, it is often placed in a comparatively disadvantageous position, because the energy and watchfulness are wanting which an individual exercises when a business is his own. If competition is active, a business cannot be successful unless all its operations are conducted with energy, and unless economy is secured by constant vigilance. In a joint-stock company all depends upon the manager or agent. The individual shareholders are not sufficiently interested to take any part in the management of the concern. Men can very rarely be found who are as careful with other people's property as they would be with their own. The manager of a company may do nothing which is in the slightest degree dishonest, it may be impossible to single out any particular instance in which he has neglected to do his duty, yet the position in which he is placed will not probably call forth those qualities which not only distinguish the good man of business, but which also cause the success of commercial undertakings. If however the manager is partly remunerated by a share of the profits realised, he will no doubt be stimulated to much greater exertion; in fact he will be made to feel the same kind of interest in the success of the business as if it were his own, and many of the disadvantages to which we have just referred as impeding the success of joint-stock companies will be removed. Joint-stock trading companies have frequently failed, because those concerned in their management have not a sufficiently strong pecuniary interest in their success. There can be no doubt that individual employers suffer most serious losses from the listlessness and apathy of their workmen, although such employers have the strongest motives to prevent neglect of work by their labourers; the losses however which are thus incurred will be still more serious in the case of a trading company, when the labourers are only watched by a manager, who is comparatively uninterested. A joint-stock trading company would even be more benefited than the individual trader, by adopting some course, if it were practicable, which would give the labourers a

pecuniary interest in their work, for in this manner the energy and skill of the workmen might with greater certainty be secured. Joint-stock companies have always experienced the greatest obstacles in retail trades, where the transactions are numerous and small. The petty details of such businesses seem particularly to require the energy of individual management.

The cooperative stores, however, which have assumed so much prominence all over the country, especially in London and in the north of England, are joint-stock companies; the capital is supplied by a large number of shareholders. Yet these societies have engaged with the most remarkable success in the ordinary retail trades, conducted by grocers, drapers, chemists, wine-merchants, coal-merchants, bakers, butchers, &c. The success of these societies not only proves that the disadvantages of the joint-stock system have been much exaggerated, but also indicates how the most prominent of these disadvantages may be overcome. The prosperity of the cooperative stores is probably mainly due to the ready-money system which they invariably adopt; the smallest sum is consequently never lost in bad debts.

It is in every respect advantageous to a country, that the joint-stock system should be encouraged; it greatly promotes the production of wealth. Small capitals which if separately applied, would do little towards the production of wealth, are brought together by joint-stock companies, and accomplish industrial works of the utmost importance. A thousand individuals who have saved 100*l.* each, may not have the time, capacity, or inclination themselves to employ the money in any business. If each of these individuals subscribed his 100*l.* to one common fund, a capital would be created sufficient to work a large Manchester manufactory; they would become proprietors and promoters of a great commercial concern, annually producing a large amount of wealth, and annually employing many hundreds of labourers.

The relative advantages of large and small farming have long been one of the most controverted points connected with the subject of this chapter. In England, agriculture has no doubt, within the last few years, been conducted on a much larger scale than formerly. In the best culti-

*Special advantage of cooperative stores.*

*The extension of the joint-stock system desirable.*

*Large and small farming.*

BOOK I.  
CH. VI.

*Advantages of large farming.*

*Agricultural machinery more available.*

vated districts of England, each farmer generally rents not less than three or four hundred acres. In many parishes the land which is now cultivated by one or two farmers was, within the memory of those who are still living, parcelled into twenty or thirty distinct holdings. We will first point out some of the obvious advantages which arise from large farming. The extended use of agricultural machinery has been a prominent feature of that great improvement in the cultivation of the soil which has taken place during the present century. Thirty or forty years since the greater portion of the corn grown in this country was thrashed by the flail; now steam-thrashing machines are used in every district, and the flail has been almost banished; even agricultural labourers rejoice in the change, and confess that they should most reluctantly resume the use of the flail; the young men of the present day would probably not submit to such monotonous work. Steam cultivation is each year rapidly extending. A much greater proportion of the farmer's capital is consequently now invested in machinery than formerly. A good steam-thrashing machine costs nearly 400*l.*; small farmers cannot afford to avail themselves of all this improved and expensive machinery. Not only can they not afford it, but a steam-thrashing machine requires for its working something more than the resources which a small farm can supply; its working must be attended to by eight or ten men; the corn is taken from the stack by two men, another man has to feed the machine with corn; the engine must have an engineer; the straw must be carried away by one man, and stacked by another; another man must take the grain from the machine, and another again will have to carry water to the engine. It is true that a great many even of the large farmers do not now own, but hire, the steam-thrashing machines which they use; such a plan, however, is extremely uneconomical. A farmer who hires such a machine cannot always obtain it at the exact time he may require it; those who let the machine must make a profit from those who hire it, and for several reasons a high charge must be paid for the use of the machine. There is the expense of taking it from one farm to another; it is earning nothing when being so moved, and the wear and tear caused by dragging it along the roads is

very considerable. But a small farmer who hires such a machine is under still greater disadvantages, for he not only has to hire the machine, but must also hire the men to work it, since he has not enough men in his own employment. Men who are hired in this irregular way must be paid more than the ordinary labourer, whose employment is constant, for they have to sacrifice much time in moving from place to place in quest of this irregular employment. Such a farmer will not be able to thrash his corn at the time most convenient to him; he must thrash it when he can get the engine and hire the men.

Small farming generally involves small fields; these fields will be surrounded by hedges, and must be approached by roads, and thus a great deal of land is wasted; the disadvantage of small fields will be greatly increased when steam cultivation is introduced. The steam plough requires considerable breadth of land upon which to work; at every turn that the plough makes, time is lost; after the centre of the field has been ploughed, the headlands will remain to be ploughed separately; the labour of moving the engine from field to field is considerable; much time may be thus wasted, and in fact it has been calculated that a steam cultivator would plough a square field of ten acres in half the time occupied in ploughing two fields of five acres each, and at two-thirds of the expense.

*Fields are larger,*

Many kinds of labour on a small farm are less productive than on a large one. Thus a flock of 400 sheep requires nearly as many shepherds as a flock of 800. Each farm has a carter, whether the farm is 300 acres, or 600 acres. Again, much of the time and energy of a small farmer is frequently wasted, for he would often be able to superintend his farm quite as well if it were larger.

*and labour frequently more productive.*

These and many other considerations show that large farming now possesses advantages over small farming, and that these advantages are destined to become more decided as the use of agricultural machinery is extended. Under large farming, labour can be made to work with greater efficiency; capital can be applied with greater effect, the most complete machinery can be used, less land will be wasted in useless hedges, and thus large farming tends to make labour and capital more efficient.

BOOK I.  
CH. VI.*Advantages of small farming.*

The advantages which have been here attributed to large farming mainly refer to the cultivation of corn and the breeding of sheep. In the growth of various other products, and especially in dairy farming, many most important advantages are associated with small farming. A traveller on the continent must have remarked that the vine, and other such products which require great care, it may be almost said tenderness, in their cultivation, are most frequently grown by small farmers; the reason of this is, that the cultivation of products requiring such watchfulness and skill could not be trusted to the careless apathy which so frequently characterizes the hired labourer. It is seldom that anyone but a mother will bestow the tender care an infant needs, and the vine will be seldom properly cultivated except by one who has that interest in it which can alone be derived from the feeling of ownership. Even in England there is a similar advantage associated with small farming; for all the operations of a small farm may be attended by the interested watchfulness of the farmer himself, and this advantage is more prominently shown in those farming operations which require great care. A dairy, for instance, needs a constant attention which the large farmers of the present day have not time or inclination to bestow; hence, if there is a dairy attached to a corn or sheep farm, the large farmer will generally underlet his dairy; the farmer supplies all the food for his cows, and the person to whom the dairy is let has every motive to give his whole and undivided attention to those minute details upon which the success of a dairy depends. Again, English farmers seldom are willing to give the time and attention which the profitable rearing of poultry for the market requires. In France, on the contrary, the farmer depends upon his poultry for no inconsiderable portion of his profits; and the extent to which this branch of industry is cultivated is proved by the fact that England annually purchases from France eggs to the value of more than 1,300,000*l*.

The question of large and small farming is often incorrectly confused with the consideration of small landed properties. This subject will be discussed in some of the succeeding chapters of this work.

## CHAPTER VII.

### ON THE LAWS WHICH DETERMINE THE INCREASE OF PRODUCTION.

WE have in the two previous chapters discussed some of the causes which determine the productiveness of land, labour, and capital; we have shown, for instance, how the productiveness of land may be increased by good systems of farming, and how the efficiency of labour and capital may be promoted by machinery and by a proper combination of labour. But if the land, labour, and capital of a country are in the most efficient state of productiveness, the production of wealth can only be increased by increasing either the land, labour, or capital; for if when the land in cultivation is in the highest state of tillage more produce from the land is required, it must be obtained by bringing a greater area of land under cultivation. Again, if all the labour which is employed is in the highest state of efficiency, a greater quantity of wealth cannot be produced unless the labour of the country is in some way increased; similarly, if the capital existing in a country is applied to the greatest advantage, and if it supports the greatest number of labourers it is capable of doing, more labour cannot be employed, and as a consequence more wealth cannot be produced, unless the capital of the country is in some way increased. Hence the laws which separately regulate the increase of land, labour, and capital, are the laws which combine to determine the increased production of wealth. We therefore intend in this chapter to discuss the laws on which depend the increase of land and labour; the next chapter will be devoted to a consideration of the laws which determine the increase of capital; and therefore the two chapters will complete our investigations concerning the laws which combine to regulate the increased production of wealth.

BOOK I.  
CH. VII.

*Conditions  
of an in-  
creased  
production  
of wealth.*

BOOK I.  
CH. VII.

*Fresh land  
may be cul-  
tivated,*

*owing to  
agricul-  
tural im-  
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ments*

*or in-  
creased de-  
mand for  
food and  
increased  
value of  
produce.*

The area of each country is limited, but, nevertheless, each country possesses much land which is not cultivated. It would therefore seem that, as far as the production of wealth is concerned, each country has the power of increasing the area of its cultivated land. But land sometimes remains uncultivated because it will not pay the expense of cultivation; if this is so, it would appear that the area of cultivation cannot be extended, because no individual would be willing to cultivate land at a loss. In explaining what will take place under such circumstances, we shall introduce to our readers some of the considerations upon which depends the theory of rent, a theory perhaps the most important in the whole range of economic science.

As a general rule, that land which is uncultivated, remains in this condition because it will not pay to be cultivated. Whenever, therefore, fresh land is brought into cultivation we must suppose that something has occurred which will cause the land to pay for cultivation better than it did before. Agricultural improvements have frequently enabled land which was before unproductive to pay a considerable rent. Thus, the present fertility of Norfolk is in a great measure due to the introduction of the turnip; this root enabled large flocks of sheep to be kept, which have fertilised what was before a poor soil. Much of the rich fen land of the Isle of Ely, which now yields a high rent, was forty years since a worthless marsh. In these cases the productiveness of the land has been increased by special improvements. Cases, however, have frequently occurred, where more land is brought under cultivation, not in consequence of agricultural improvements, but because there is a greater demand for the produce which is raised from the land. If the population of a country increases, its people will require a greater quantity of food; and this food must, in the absence of foreign importation, be obtained either by making the land which is already in cultivation more productive, or by extending the area of cultivation. If at the time this increased demand for food arises there are no particular agricultural improvements to be suggested, the enlarged demand must be supplied by cultivating more land; but as this land did not previously pay for cultivation, and as it would not now be cultivated if it did not pay for cultivation, it follows that the value of agricultural pro-



duce must rise in order that the farmer may realise an adequate amount of profit. Since land previously untilled is now supposed to be cultivated, the production of wealth, as we have before remarked, is increased in consequence of the greater demand which has taken place for food. It is not alone the land thus brought into cultivation which is made more productive, but all the land of the country becomes more productive of wealth; for although there is not a greater quantity of produce raised from it, yet the value of the produce is enhanced by the increased demand for food. All the effects here attributed to an increase of population are strikingly exemplified in the progress of a prosperous colony. No one can doubt that many of the great natural pastures of Australia, which now pay scarcely any rent, will in the course of time be cultivated and rented as valuable agricultural land. Within the last few years the area of cultivation in Australia has rapidly extended. From 1851 to 1861 the population of Victoria increased from 80,000 to 500,000; in 1881 it was more than 800,000. The increased quantity of food which is now consumed in Victoria has caused more land to be brought into cultivation; the value of agricultural produce must consequently have risen, because land which is in cultivation now would not have repaid its cultivators when the population of Victoria was so very much smaller.

Although it has thus been shown that the value of agricultural produce must rise when the demand of a larger population causes more land to be brought under cultivation, yet it will assist the reader, if the primary causes are explained upon which this rise in value depends. Every country possesses land which varies greatly in productiveness. In estimating the productiveness of any particular land it is necessary not only to consider the fertility of its soil but also its accessibility, or, in other words, its convenience of situation. Some of the most fertile land in the world is so remote from any population which requires its produce, that its cultivation would prove unremunerative, and therefore it may be regarded as unproductive of wealth. Confusion frequently arises because a productive soil and a fertile soil are regarded as synonymous expressions. In an economic treatise, however, it must be always carefully remembered that not only fertility but

*As the value of produce rises, less productive soils are cultivated.*

*The meaning of the word 'productive' as applied to land.*

also convenience of situation are included when the term 'productive' is applied to land.

Bearing these remarks in mind, it is evident that the productiveness of land varies inversely with the quantity of labour and capital required not only to raise a certain amount of produce, but also to bring the produce to the situation where it is required. The most fertile land, if extremely remote from the population which is willing to purchase its produce, is frequently unproductive, because of the great expense which cost of carriage would involve. As population increases, unless the additional food required can be obtained either by foreign importation or by improved agriculture, the area of cultivation is extended, and less productive soils must be resorted to; or, in other words, land is gradually brought into cultivation which does not return so much for the labour and capital expended upon it, as land which was previously cultivated. Hence the production of wealth cannot be indefinitely increased, because the returns to labour and capital diminish, as it becomes necessary to resort to less productive land. This principle forms the basis of Ricardo's theory of Rent, or as it is sometimes called, the theory of diminishing productiveness.

*An increased demand for food tends to increase the value of agricultural produce.*

The proposition just enunciated suggests an obstacle which more or less impedes the continual increase in the production of wealth. The reader, for several reasons, finds it difficult adequately to appreciate the magnitude of the impediment which in many countries is thus placed upon the production of wealth. It will be necessary frequently to recur to this subject; a few more remarks may, however, be here made upon it with advantage. It may be thought that although less productive land requires more labour and capital, yet the general value of agricultural produce will be but slightly affected. For it may be urged that the productiveness of the land which was previously cultivated will not in any way be diminished, on account of the more expensive culture required by the less productive land, which is now resorted to. A portion only of the produce which is raised from the land will require a greater outlay of labour and capital, the productiveness of all the remaining land will be unchanged, and hence it may be argued that no serious impediment can be caused to the production of wealth. We must repeat,

that when an increased demand for food brings less productive land into cultivation, this food is obtained at a greater cost of labour and capital, and therefore food becomes more expensive. But the value of wheat of the same quality does not vary, when brought to market, because one sack of wheat has been produced at a greater cost than another; of course this is a matter of no consideration to the purchaser, but simply to the growers of wheat. If therefore it is necessary that the price of wheat should rise, in order to make the cultivation of inferior land remunerative, the price of all the wheat grown must rise in a similar manner, and food consequently becomes more expensive. If by these causes the price of wheat is raised, it is manifest that the farmers who cultivate the more productive land must derive a great advantage, because the produce which they obtain does not require more labour and capital, and yet its price is materially increased. The farmers however cannot in the long run appropriate this advantage to themselves, as the landlords secure it in the form of increased rent. A further discussion on this branch of the subject would involve an explanation of the theory of rent; and this theory does not properly belong to the production, but to the distribution of wealth.

The important proposition we wish to establish concerning the production of wealth is, that an increased demand for food has a tendency to make food more expensive, and as such an increased demand is almost always caused by an increased population, we may enunciate the principle thus: that as population advances, food has a tendency to become more expensive. In the enunciation of this principle, we have employed the word tendency. We believe that an example may be thus afforded, which will illustrate the great importance of enunciating almost all the principles of political economy, as exerting tendencies, rather than as producing immediate results. This has not been sufficiently recognised, and consequently the progress of political economy has been greatly retarded, and much prejudice and incredulity have been raised in the minds of practical men towards the conclusions of this science. In mathematics a force is measured by the effects which it has a tendency to produce, i.e. which it would produce if not counteracted by other forces. The force of gravity is estimated by the space through which the body would fall

*Political economy explains the tendency of certain events rather than their actual immediate results.*

in a second of time, if it was acted upon by no other force; this space is sixteen feet; all bodies, however, do not so move, although every particle of matter is acted on by the same force of gravity. A feather floating in the air is attracted by the force of gravity, and yet it does not fall through sixteen feet in a second of time; the feather does not fall through this space, because its downward motion is retarded by the resistance of the air. Although the force of gravity is thus partly counteracted, it is not either destroyed or rendered nugatory; its effects may appear to be different, but the force of gravity always exerts a tendency, whether the tendency be counteracted or not, to make a body move through sixteen feet in a second of time. It would be very unreasonable to assert that the theory of mechanics was erroneous, because other forces intervene and modify the effects attributed to the action of a certain force. The distrust which is sometimes shown towards the principles of political economy is equally unreasonable; these principles attribute certain effects to certain causes, but the effects will be altered, if the causes are modified; these causes, like the forces in mechanics, are often affected in their operation by many disturbing agencies. For instance, the principle has been enunciated that the tendency of the increased demand of an advancing population is to make food more expensive. Political economy however is not in error, because circumstances may occur which will counteract this tendency; we are all aware that this tendency towards higher prices has been and may be again counteracted; that agricultural improvements, for instance, have often been introduced, which have enabled the increased wants of a larger population to be supplied without any rise in the price of food. The population of Great Britain increased 4,500,000 between 1841 and 1861, and yet the price of wheat was on the average lower in 1861 than in 1841; but this fact does not falsify the principle above enunciated. The circumstances which have prevented a rise in the price of wheat are patent to all. Before 1848, we were in a great degree restricted to our own soil for our supplies of corn. Now we are freely permitted to purchase wheat from any country which offers it for sale. As many as twelve million quarters of wheat are often imported in one year; and as the means of communication improve, the area from which

*Why the  
price of  
wheat has  
not risen in  
England.*

we draw our supplies is constantly extended; thus wheat is now sent in considerable quantities to England from California and Australia, and even such a remote region as the Punjab exports wheat to Great Britain. The influence therefore of free trade and improved means of transit has been analogous to that which would have been exerted if a tract of fertile land had been added to the cultivable area of this island. Suppose that, in consequence of the great abundance of fertile land in the valley of the Mississippi, wheat grown there could be sold in our markets at a less price than would adequately remunerate the English agriculturist if he grew wheat on many of the less productive soils in England. Under these circumstances the valley of the Mississippi would, as far as the supply of wheat is concerned, serve England the same purpose as if a tract of fertile land could be added to her shores. We are quite ready to admit, that the effects attributed by political economy to one particular cause, seldom occur with strict exactness; such perfect conformity could not take place unless the cause acted alone, and this is very rarely the case; the practical utility of political economy however is not for this reason lessened, for the science demonstrates that certain results must ensue, if a counteracting influence does not come into action. We will illustrate our meaning by referring to an argument, which we believe is unanswerable when urged in support of free trade. The population of England is advancing; if we are restricted to our own soil for supplies, then food will be obtained at a greater cost of labour and capital, and food must ultimately become much dearer. It therefore becomes most important that the fertile soil of the whole world should, as far as possible, be made available to supply us with the produce we may require.

We must next consider how the production of wealth is affected by an increase in the amount of labour, or, in other words, by an increase in the number of the labouring population. Labour is increased when it is made more efficient. If a machine is introduced which enables one labourer to do the work of six, of course the amount of labour in the country is augmented, but this increase is due to improvement in the efficiency of labour, a subject which was considered in the last chapter. We must here therefore restrict ourselves to a discussion of the

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*Influence of  
a demand  
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amount of  
population.*

consequences which result, when an increase in the number of the labouring population causes more wealth to be produced. If a greater quantity of any commodity is required, a greater number of labourers must be employed, unless some industrial improvements are introduced. Suppose, for instance, there suddenly arose a very active demand for English cottons in China; a much greater number of labourers would soon be engaged in cotton manufactories. It may be asked, How is the increased number of labourers to be obtained? Surplus hands will be drawn from other employments, and emigration will be checked, if there is a great demand for labour. If the demand for additional labour continues, an increase of population will be powerfully stimulated, and the labour required will ultimately be supplied principally from this source. It is important to point out in what manner an increase of population is promoted by an active demand for labour.

Labour is in demand when trade is good; then wages are high, and the labourers are prosperous. It is found that the number of marriages amongst the poorer classes is invariably much greater when the labourers are prosperous. There is no surer test of the prosperity of the labouring class than the low price of bread, and there are few statistical facts better substantiated than that the marriages amongst the labouring class increase with the fall in the price of bread. It may be reasonably assumed that wages are high when trade is good. But from what source are these higher wages supplied? It must be from the capital of the country, because this is the fund from which the labourers' wages are provided; the circulating capital employed in any trade or manufacture must be increased if the labourers engaged in it receive higher wages. It may be here remarked, that when a trade is active, the profits are high, and thus a great inducement is offered to those engaged as employers in the trade, not only to save more, but to apply a greater amount of capital to their business; this additional capital is either borrowed or is withdrawn from other investments. But now, having pointed out some of the sources from which an increased number of labourers will be obtained, we have next to consider how this increased population will be fed. Reference has just been made to some of the sources from which the additional wages paid

to the labourers will be supplied when an active trade causes a greater demand for labour. Let us suppose, therefore, that when the labouring population has increased, the circulating capital of the country has been proportionally augmented; but if there is a larger population, more food will be required, and the important question arises, Under what conditions is this food to be obtained? In answering this question we avail ourselves of that principle which has been stated in the first part of this chapter, namely, that there is a tendency for food to become more expensive as the demand for it increases, because less productive land may have to be resorted to, the returns from which are not so large in proportion to the labour and capital expended upon it.

The production of an increased quantity of wealth requires a greater number of labourers, and when the labouring population is thus augmented food will become more expensive, unless the additional food required can be obtained either by agricultural improvements, or can be imported at a comparatively cheap rate from other countries. All that we have here stated is strikingly exemplified by the events which have occurred within the last few years. The trade of the country although it has been sometimes checked by periods of depression has advanced with striking rapidity, the number of labourers now engaged in the manufacturing industry of this country greatly exceeds the number employed twenty years since. The capital invested in our manufactures has even advanced more rapidly than the increase of population. Not only are there more labourers, but the wages of these labourers have risen very decidedly within the last few years. Two causes, therefore, have combined to increase the demand for food, namely, a larger population and a better paid labouring class. But it may be said political economy would predict that, in consequence of such a demand, all food will become more expensive; and yet bread is cheaper. But as previously remarked, we have now the whole world from which to obtain our supplies of wheat, and the cost of carrying wheat from one country to another is comparatively small. There has, however, been a most decided rise in the value of those articles of food which we cannot with such facility obtain from other countries. For instance, it is so much more difficult and

*Relation between increase of population and increased production from land.*

*Exemplification of these principles in late years.*

BOOK I.  
CH. VII.

*The cost at which an increased supply of food can be obtained will mainly determine the condition of our labouring population.*

expensive to import meat than corn that, although wheat is at the present time very cheap and meat exceptionally dear, more than one half of the wheat we consume is imported, whereas only about 20 per cent. of the fresh meat we consume is imported<sup>1</sup>. The rise in the price of meat which has taken place during the last few years must continue with the increase of population, unless by the conversion of corn land into pasture more meat is produced in England, or unless some means are discovered of improving the present methods of importing fresh meat. Since, therefore, we are to a much greater extent restricted to our own soil for meat and dairy produce, importation has not been able to counteract that rise in the price of these articles, which according to political economy, must accompany the increased consumption of a more numerous and better paid labouring class; the result has been that meat and dairy produce have become fifty or sixty per cent. more expensive within the last few years. In all probability the labouring population will for many years continue to increase; every year therefore a greater quantity of food will be consumed in this country; the mode in which this increased supply of food will be obtained must mainly determine what will be the future condition of our labouring population. If the opening of new sources of foreign supply and the introduction of agricultural improvements should enable an increased quantity of food to be procured without any advance in its value, then a larger population may be maintained in an improved material condition. If on the other hand foreign importations and agricultural improvements should not exert a sufficiently powerful influence to check a rise in the value of food, as the demand for it increases (or, in other words, if resort must be had to less productive soils in order to supply the wants of an increasing population), then the condition of the labouring population will gradually but steadily deteriorate.

<sup>1</sup> Major Craigie, secretary to the Central Chamber of Agriculture, estimates that about 22 per cent. of our aggregate meat supply is obtained by foreign importation. The proportion seems to be somewhat increasing; as Mr James Howard in a paper, read before the Farmers' Club in 1876, estimated the proportion at that time at about 17 per cent.



## CHAPTER VIII.

### ON THE INCREASE OF CAPITAL.

IN the preceding chapter we have remarked upon some of the more prominent conditions which determine the increased production of wealth, as far as it depends upon an increase of the cultivated land, and upon an increase in the number of the labouring population. But larger production also requires an increase of capital. It must be evident from the remarks we have made upon capital, that an increase of capital is as essential to a larger production of wealth as an increase of land and labour. If land, for instance, is more highly cultivated, additional capital must be applied to it: and new land cannot be brought under cultivation without the application of capital to it. If more labourers are employed, a larger fund, in the form of circulating capital, must be devoted to pay their wages. Improvements in the various processes of industry cannot be introduced without the expenditure of capital. Machinery, warehouses, manufactories, railroads, ships, all such industrial appliances as these, exhibit the various modes in which the fixed capital of a nation assists her industry.

It has been previously asserted as a fundamental proposition, that capital, whether fixed or circulating, is the result of saving. Increased capital, therefore, implies increased saving; and hence the laws may be determined which regulate the increase of capital by considering the causes upon which depends the increased saving or accumulation of wealth. There are two principal motives which induce men to save; and these are, first, a prudent foresight with regard to the future; and, secondly, a desire

BOOK I.  
CH. VIII.

*Increased  
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saving,*

BOOK I.  
CH. VIII.

*which may  
be due to  
two motives  
—foresight  
and desire  
for profit.*

to make wealth by an advantageous investment. The first motive is by far the more powerful. To its action has been due the greater part of all wealth which has been saved. But the second motive is the chief cause of fluctuations in the amount of a nation's capital. Whether the amount of capital at any time existing in the country is above or below the average is almost entirely determined by the profit which it may be thought capital will realise. This profit may be estimated by the current rate of interest. But in political economy, as in many other sciences, the causes which produce the disturbing fluctuations require a more careful investigation than those causes whose action is more constant and more undeviating. The earth when revolving in its orbit is acted on by a great number of forces. It is attracted by every body in the planetary system, yet these forces combined are almost immeasurably inferior to the force of attraction which is exerted by the sun. Most important mathematical investigations, however, depend upon the action of these disturbing forces. Similarly, in political economy, the effects of the more constant causes can be readily estimated; but causes more varying in their action introduce fluctuations and disturbances which must be investigated and classified by the scientific principles of political economy.

*Import-  
ance of the  
desire to  
accumulate  
wealth.*

As civilisation advances the desire to accumulate wealth increases, and foresight for the future becomes more general. The more men's intellectual and moral faculties are developed, the more careful will they be to make a reasonable provision for the future. The Jesuit missionaries, who a century since formed a settlement in Paraguay, found the great difficulty they had to contend with was the utter recklessness of the people. The missionaries gave them seed. They knew that this seed would, if sown, in a few months yield them a plentiful supply of food, yet they could not be restrained from eating the seed instead of sowing it; the smallest present enjoyment was by them preferred to the greatest prospective advantage. People in such a condition can be very little superior to the more intelligent animals, whose hereditary instincts induce them to provide against danger which they may have to encounter. Birds build nests which

are most perfectly adapted to protect their young; beavers construct their habitations on a plan so admirable that it seems almost to rival the skill of man; and even dogs collect a store of food to which they will resort when pressed by hunger.

In England the desire to accumulate wealth acts with great force amongst certain classes. It is impossible accurately to define the causes which regulate the amount saved by any individual, but it may be stated generally that in England each class of society has a recognised standard of living which involves a certain expenditure, and the whole of an individual's income which is in excess of this expenditure is usually saved and invested. The amount which is saved is, therefore, partly dependent at any particular time upon the material prosperity of the country. If activity of trade or any other such circumstance should increase the incomes of any particular class, there would be a larger fund from which savings might be made, and more would be saved. Habit has such a powerful influence in determining expenditure, that it often happens that a man does not spend more, although his income may be greatly increased. Any circumstance, therefore, which tends to augment the wealth of the nation, will induce increased saving.

It may also be remarked that the amount of an individual's expenditure is to some extent determined by the cost of the commodities which he consumes. The consumption of some articles diminishes in proportion to the rise which may take place in their price. In Madras, for instance, when the salt duties were a few years ago raised 18 per cent., the result was an increase in the revenue of only 12 per cent. This proved that the consumption of salt was diminished by the increase in its price. It was found that when the sugar duties were raised beyond a certain amount, they did not produce a larger revenue. A rise in the price of sugar induces large numbers to give up its use. Such articles, however, as tea and bread, are, in this country, almost universally regarded as necessaries of life; and the quantity of tea and bread which is consumed by those classes who accumulate the capital of the country, is not materially affected by a variation in the price of these commodities. If, therefore, bread and tea decline in price,

BOOK I.  
CH. VIII.

*Its strength  
in Eng-  
land.*

*The  
amount of  
saving is  
partly de-  
termined  
by the cost  
of the  
articles  
consumed.*

BOOK I.  
CH. VIII.

the household expenses of the middle and upper classes will be diminished, and a larger portion of their income will remain to be saved as capital. We mention this as applying particularly to the middle and upper classes, because there is no doubt that our labouring population would gladly consume a greater quantity, even of the ordinary necessities of life, had they the means of purchasing them. If the price of tea is reduced one-half, the labourers will probably continue to spend upon this article as much as they had previously done; they would spend less upon bread if its price was reduced, but the amount which they thus saved would not, as a general rule, be invested by the labourers as capital, but would be applied to satisfy some of the many wants and desires of life, which they have not the means of gratifying. The labourers therefore are benefited in two distinct ways, by the cheapening of any article of ordinary consumption. They have, in the first place, to pay less for it when they purchase it, and secondly, the cheapening of such a product has a tendency to augment the capital of the country, by enabling the middle and upper classes to increase their savings, and the labourers will receive higher wages if capital is increased.

*Causes of  
fluctua-  
tions in the  
amount of  
saving.*

We have however before remarked, that the fluctuations in the amount of capital which is saved, depend upon the nature of the opportunities which present themselves for investment. If the profits which can be realised upon capital increase, a greater inducement is offered to save, and a larger amount is sure to be saved. From such a source, either directly or indirectly, any large increase of capital which may be required is mainly supplied. At any particular time there is a certain interest upon capital which people expect, and with less they will not be satisfied. But it will perhaps be said, what does a capitalist do with his capital? If he wants  $3\frac{1}{2}$  per cent. interest and can only obtain 3 per cent., he will not squander it because he is not satisfied with so low a rate of interest; will, therefore, less wealth be saved? Less, no doubt, will be saved, because a low rate of interest offers less inducement to save; the most important point, however, to be borne in mind is that a much smaller portion of the wealth which is saved will be invested as capital in our own country, when the rate

of interest is low. England, far more than any other country, offers a striking example of the vast amount of capital which the people are ready to invest, if a favourable opportunity presents itself. When the government requires a loan, many millions are at once subscribed, without encroaching in the slightest degree upon either the circulating or fixed capital of the country. The loan is not altogether supplied from capital which was previously unemployed, but England has vast sums invested in almost every civilised country. Magnificent as are the tokens of England's wealth which surround us on every side, yet our manufactories, our railroads, our mercantile marine will not give us an adequate idea of England's riches, unless we remember that there are few countries either in the new or the old world that are not our debtors. Russia, Turkey, India, Australia, Canada, the United States, the Republics of South America, all have satisfied their state necessities, by loans supplied from English capital. But it is not only foreign governments who borrow from us; a vast number of foreign speculations have been supported by English capital. A considerable number of railroads throughout the world have been made by English capital; the Grand Trunk Railway of Canada has absorbed 15,000,000*l.* of English capital. The railways, irrigation works, and roads of India have been constructed by English capital, and some of the richest mines in South America have been worked by English companies. Consequently only a portion of the wealth which is annually accumulated in England is retained to be invested in this country. If, therefore, England requires a greater amount of capital to extend any branch of trade or to carry out any public work, she can supply an amount which is practically unlimited. If, for instance, there were such an expansion in our cotton manufacture, that 100,000,000*l.* of additional capital was required, it would be readily obtained, by placing a check upon the investments of English capital abroad. The amount of capital, therefore, which is applied to the production of wealth in this country, does not depend so much upon the amount which is saved, as upon the proportion retained by the country itself of all the wealth which is saved. The relative amount of English capital which is invested at home and

BOOK I.  
CH. VIII.*Foreign investments.*

BOOK I.  
CH. VIII.

*Economical condition of foreign countries as to the requisites of production.*

abroad is regulated by many considerations, the chief of which is the rate of interest which can be obtained at home compared to that which can be obtained in foreign countries. We have explained that the English government may raise large loans without diminishing the capital invested in English industry, the loans being chiefly derived from capital which would otherwise have been embarked in foreign investments. Yet it must be borne in mind that this remark does not apply to France and to other countries from which little capital is exported. Thus France was congratulated at the close of her war with Germany upon the ease with which she raised successive loans, amounting to many hundred millions of pounds, to defray the expenses of the war and to pay the German indemnity. A portion of these vast loans was probably supplied from money which had been hoarded; but a great portion of them was no doubt obtained from capital which would otherwise have been re-employed in the production of wealth. The war had caused, over a great part of France, an almost entire cessation of production. Hence, as the war proceeded and as trade declined, there was a large amount of capital which had previously been employed in productive industry ready at hand to be lent to the government to be consumed in war. Even after the war was concluded, the indemnity of 200,000,000*l.* which she had to pay to Germany withdrew a large amount of capital from France which might have been employed in reviving the various branches of industry which had suffered so much during the war.

*India has abundance of land and labour, but little capital.*

It is important to bear in mind that, with regard to the conditions on which depend the increased production of wealth, England, in many respects, offers a direct antithesis to other countries; thus, she possesses an almost unlimited capital, but has very little fertile land at the present time uncultivated. In India the chief requisite for the increased production of wealth is increase of capital; whereas in newly settled countries which possess an abundant supply of unoccupied fertile land, a larger production of wealth chiefly depends upon an increase of labour and capital. It will be readily perceived that, contrasting England and India, the increased production of wealth will take place under very different conditions in the two countries. In

England capital is readily supplied to assist an increased production of wealth. The labourers' wages will probably rise when the industry of the country is active. There may, however, be one drawback to the benefit which they thus derive. As the area of new soil which England can bring under cultivation is so limited, the price of many articles of food will rise, in consequence of the larger consumption of a more numerous and better paid labouring class. India, in her present condition, has a most abundant supply of labour, and the productiveness of her land might be greatly increased if more capital were applied to its cultivation; but at the present time there seems little chance of this increased application of capital taking place unless more capital is obtained from other countries.

It is evident, from the previous remarks, that in England the great requisite for the increased production of wealth is a large supply of cheap food. This cheap food may be obtained either by importation, by agricultural improvements, or by extending the area of land cultivated in England. Industry cannot be for any length of time impeded in this country by any want of labour and capital, but in India an increase of capital, both fixed and circulating, is most essential to a larger production of wealth. Ages of anarchy have produced a wide-spread feeling of insecurity throughout India. Individuals have been afraid to exhibit their wealth, because it would tempt the rapacity of those who had the power to pillage their weaker neighbours. A great part of the wealth saved was hoarded, and it consequently performed none of the functions of capital. The owners of property felt that it was only secure when it could be concealed. If they employed labourers, they could not feel certain that they would be able to retain the results of the labourers' industry. Hence we can reasonably anticipate one most beneficent result from England's rule in India; for her power, in course of time, may make every class in India feel that the rights of property are respected. Nothing will more tend to increase the capital, and hence the wealth of the country; for when security is given to property there is a great inducement to save, and the wealth which is saved, instead of being hoarded, will be usefully applied as capital to assist the further production of wealth. India is at the

*Thus England wants cheap food, and India capital.*

*Useful results to India of her connexion with England.*

present time, in some degree, deriving this advantage from England's rule. But admitting this advantage, it cannot be too carefully borne in mind by those who are responsible for the government of India, that the Indian people ought not to be compelled to pay too high a price for it. Our administration being necessarily expensive, in consequence of the high remuneration which Europeans receive in order to induce them to reside in the country, every care ought to be taken to prevent its being more costly than it need be.

Although there are so many points of diversity between England and India, yet, as previously remarked, there are other countries whose economic condition differs most essentially from either that of England or India. The main requisite for the increased production of wealth is, in India, an increase of capital, and in England, an increase of land, or, in other words, an increased supply of cheap food. In the West India islands, however, there is an abundance of land and capital, but a great scarcity of labour. The decline in the prosperity of these islands is, in an economic sense, most instructive. Previous to the emancipation of the slaves, the West Indies possessed all the three requisites of production; their soil was fertile, it was owned by English proprietors, who readily supplied all the capital that was required, and labour was, of course, never deficient when slaves could be freely imported, and when there was an abundance of money with which to purchase them. But the abolition of slavery not only freed the slave, but effectually checked the importation of labour. Property in man was declared to be illegal, and therefore no one would resort to the expense of importing labour when he had not the power to retain the services of the labourers he imported. The emancipated negroes of the West Indies are unwilling to do as much work as when labour was extorted from them. Degraded by their bondage, their wants are few, and easily satisfied; the rich fertility of the tropics supplies them with almost all the food they require, with the exertion of very little labour. Why should they, therefore, constantly toil? They have few tastes to gratify, and few wants to satisfy. No one will labour for labour's sake; the emancipated negroes are well fed almost by the spontaneous bounty of nature,

*In the West Indies there is abundance of land and capital, but little labour.*



and they are therefore perfectly contented to live a lazy life of repose. The consequence of this is that the production of wealth has almost ceased in many parts of the West Indies. The land is as fertile as it was before; English proprietors would only be too glad to supply capital if they could find the labourers; but this labour is not forthcoming; the emancipated negroes are unwilling to work and the climate is unsuited to European labourers; the production of wealth cannot proceed, and estates, which before 1833 were worth 10,000*l.* a year, are now little more than a useless burden to their owners. It is thus quite evident that it is impossible for the West Indies to become more prosperous without a larger supply of labour. How is such a supply of labour to be obtained? In the first place, labourers may be imported; secondly, the population of the islands may increase, and the people may become more desirous to labour, as their wants become gradually enlarged. Let us first consider the importation of labour. Labourers may pass from one country to another entirely of their own accord. Large numbers of Chinese have emigrated to Australia because they could earn higher wages in Australia than in China. They have also emigrated in large numbers to the United States. Australia never took any steps to encourage their coming; their presence is, in fact, so much objected to, that an extreme measure has been passed, and a poll-tax of 10*l.* has been imposed on every Chinaman who lands, and moreover in New South Wales and Victoria the owners of vessels are subject to heavy penalties if they bring more than one Chinese to every hundred tons of ship burden. If the Chinese felt that equal advantages were to be secured in the West Indies, no doubt great numbers would emigrate to those islands, and thus supply the labour which is so much needed. It is, however, a singular fact, that the English, the Germans, and the Chinese are the only people who freely emigrate at the present day<sup>1</sup>. Now it is quite impossible for English or Germans to work in a sugar plantation under a tropical sun; if, therefore, the Chinese will not resort in the same way to the West Indies as they have to California and Australia, the West Indies

BOOK I.  
CH. VIII.

*Consequences of this deficiency.*

*Difficulty of supplying it by importing labour.*

<sup>1</sup> The word English is here used, as in other places in this volume, to describe the inhabitants of the United Kingdom generally.

BOOK I.  
CH. VIII.

cannot depend upon a supply of labour from voluntary emigration. Such emigration as that of the coolies cannot be regarded as voluntary. A government votes a certain sum of money to fit out ships which sail to the Malay Archipelago. The natives are canvassed to emigrate, their expenses are paid, and they are promised work when they arrive at their destination. Large numbers of coolies have in this manner been imported to the Mauritius and the West Indies, but the traffic is liable to be abused, and the coolies have occasionally endured on their voyage sufferings which seem to revive some of the horrors of the slave-trade. The coolie-traffic can never be carried on by private enterprise, because, if an individual imported coolies, he would have no power to compel them to work for him in preference to another person. If such a power were permitted, there would cease to be any real distinction between the coolie-traffic and slavery.

*Other  
means of  
remedying  
the evil.*

The negroes of the West Indies are, as we before remarked, unwilling to work; and the only hope of making the people more industrious, is to stimulate in them new desires and new wants; they will not, of course, work as long as they are content to obtain little else than the food which the islands supply in abundance. If they become more anxious to have expensive clothing or expensive food, which may perhaps have to be imported from other countries, they will at once have a motive to work, and the West Indies will cease to suffer from the present great scarcity of labour. England, therefore, offers a striking contrast in every respect to the West Indies; nothing can exceed the ceaseless industrial activity of the English people. We all of us labour, because there is some desire which we wish to gratify. Our labourers are pressed on to continuous labour by the necessity of procuring a livelihood. Our climate is rigorous, and the bounty of nature will not supply us with the means of supporting life unless we work with energy and with constancy. The middle classes are urged on to industrial activity by the desire to improve their social and material condition.

*In America  
land and  
capital are  
plentiful,*

The economic condition of America, as far as the production of wealth is concerned, differs in some respects from that of each of the three countries we have considered. In

but labour  
dear;

effects of  
this upon  
agricul-  
ture.

America, labour is comparatively more scarce than either land or capital. We say comparatively more scarce, because in the West Indies the scarcity of labour is so great that the production of wealth is almost entirely prevented; but this is not the case in America, for in no country has the production of wealth advanced with greater rapidity. If, however, we compare America with England, we know that land is much cheaper in America and labour much dearer; and one of the consequences of this difference is strikingly exemplified by a circumstance which has been noticed by almost every traveller in America. America is ill cultivated compared with England, and her agriculture appears to be most slovenly; there must be some cause for this difference; it cannot be explained by a commonplace remark on difference of race. An agriculturist, who may in England have cultivated his farm like a garden, will, if he emigrates to America, find it greatly to his interest to adopt a very different system of tillage. The reason of this may be best shown by an example. An English farmer, let us suppose, cultivates a hundred acres of land, for which he pays 200*l.* a year rent. 200*l.* a year expended in wages on his farm will return the farmer a fair profit for his capital and his exertion; but he may think that it will answer his purpose to farm more highly, to employ twice as much labour as before. He will be remunerated for the additional 200*l.* which he expends on wages, if the increased produce from the farm sufficiently exceeds the cost of this extra labour to leave the farmer a fair profit on the additional capital he has expended. If this is the case, the additional labour will be as profitable to the farmer as that which he first employed, but it will not be so productive. When only 200*l.* was expended on wages, the produce of this labour must have been sufficient not only to return a fair profit upon the amount expended in wages, but must also have been sufficient to cover the rent. If the additional labour employed diminishes in productiveness, it may be said why not apply it to other land? it cannot, however, be applied to equally good land without having to pay a rent for the use of the land; hence, up to a certain point, it is more remunerative to apply additional labour to the same land, although the labour diminishes in productiveness, rather than to apply the

labour to other land for which rent will have to be paid. But if good land were extremely plentiful, or if, in other words, rents were extremely low as in America, it would manifestly be far more profitable to cultivate fresh land rather than apply additional labour upon land already under tillage in order to cultivate it more highly. Hence, in America much less labour is employed in the cultivation of a certain area of land than would be employed upon the same area in England, and farming is consequently more slovenly in the former than in the latter country, because in the one country land is cheaper than in the other, and labour dearer.

In this and the preceding chapter, we have investigated the laws which regulate the increase of labour, and capital, and cultivable land. These laws combined, furnish the conditions upon which depends an increase in the production of wealth. We have attempted to illustrate the manner in which these laws may be combined, by considering four countries, England, India, the West Indies, and the United States; and in each of these countries the requisites for an increased production of wealth assume, relatively, different degrees of importance. In England, an abundant supply of cheap food is required; in India, an increase of capital is most essential; and in the West Indies, an increase of labour. In America the production of wealth meets with no serious impediment, for it advances with the most extraordinary rapidity. Yet, in America, there is a comparative scarcity of labour, and an ample supply of productive land. America and England have conferred upon each other the most important mutual benefits. Cheap food is essential to England's progress, and our greatest supplies are obtained from America. Cheap labour is the most valuable gift to America, and our surplus population, which would become burdensome to us if there had been no emigration, is providing America with the labour she so much needs.

All the more important propositions which concern the production of wealth have now been considered; this portion of our subject will be frequently recurred to, in order that the reader may obtain a firmer grasp of many of the principles here discussed. We now pass on to the next branch of our subject, which is the distribution of wealth.

**BOOK II.**  
**DISTRIBUTION.**



## CHAPTER I.

### PRIVATE PROPERTY AND SOCIALISM.

HAVING considered the production of wealth in the last book, we now pass, by a natural sequence, to expound the principles which regulate the distribution of wealth. In some of the remarks on the production of wealth, it was necessary to anticipate the fact that the wealth produced is distributed amongst different classes. The wages of the labourers, the profits of the capitalist, and the rent of the landlord, have been spoken of. Allusion has also been made to some of the sources which supply the wealth thus distributed; for instance, the nature of capital could not be explained, without showing that the capital of the country is the fund from which the wages of the labourers are supplied, and, therefore, if the capital increases, the wages paid must increase. Although in this manner, the subject of the distribution of wealth has been slightly encroached upon, yet nothing has hitherto been said in reference to the principles which determine the relative amounts of the shares into which wealth is distributed. It, therefore, remains to explain why wages are high or low, why profits rise or fall, and why rents in one country vary so greatly in amount at different times and in different places. This book, therefore, will probably be more interesting than the last, because in it questions will be discussed of the greatest practical importance; we shall have occasion to show how wages and profits are affected by such combinations as strikes, and how industry is influenced by the different tenures of land which exist in different countries; the subjects discussed will, in fact, have equal interest for the philanthropist and the trader; for remedies will be suggested for alleviating the poverty

BOOK II.  
CH. I.

*Distribu-  
tion of  
wealth.*

BOOK II.  
CH. I.

*The distribution of wealth implies property*

*and is affected by the different laws about property.*

of the poor; and the causes upon which depend the prosperity of trade will be explained.

Distribution of wealth implies the idea of property. If there were no property, or, in other words, if no individual possessed anything which he could claim as his own, there could of course be no distribution of wealth. Every one would then obtain, either by chance or by force, the food and other necessities which minister to the wants of life. It is impossible for property to exist until society is organised, for the fundamental idea involved in property is this; that those who own the property possess in it a right, which will be enforced by law; but the existence of law implies that a people composing a state or a nation will exercise a combined power to make individuals regulate their conduct according to certain rules termed laws. Such combined action constitutes the power of government, and the government ceases to exist if it is not able to exercise its power and enforce obedience to its laws. A great portion of the laws of every nation concern property; such laws vary greatly in different countries and at different times, and property has rights in one age of a nation's existence which it has not in another. Before the passing of the Act of Emancipation, a negro, if purchased by an English colonist, became as much his property as an article of domestic furniture. In feudal times, a baron could enforce various personal services from those who occupied his land; they were bound to furnish him, if he waged war, with a certain number of men, horses, and coats of armour. There is, again, the greatest difference in the control which can be exercised over the disposal of property; for, in England, land can be entailed, and devised by will, to an unborn child. In France, the owner of land has no power to prevent his children sharing it equally upon his death. Then again, property is held in different ways; a great number of individuals forming a company or society may be the joint owners of property. Property may be held on lease. In Europe, the land is chiefly the property of private individuals; whereas, in India, the bulk of the land is owned by the government. It would be impossible to describe the origin of all the different kinds of property, and the rights connected therewith, without writing the history of each country; but



although it does not pertain to political economy to discuss the origin of the laws of inheritance, or of land tenure, yet the production and distribution of wealth are most materially influenced by particular laws of inheritance, and by different systems of land-tenure: therefore, all such influences must be most carefully considered in a treatise on political economy.

It has been remarked that the principles which regulate the production of wealth have the character of physical laws. The distribution of wealth is much more liable to be controlled by the human will. As an instance, nature supplies the materials out of which all wealth must be created; and the kind and amount of the labour which must be bestowed upon the raw material when it is converted into some manufactured commodity depends upon the properties of the material. Again, the world has been so constituted, that every country possesses land of various degrees of fertility; from this circumstance we deduced that important law which was explained in the last book, and which affirms that the cost of agricultural produce has a tendency to increase as the demand for it advances. The production of wealth is, therefore, influenced by various physical conditions which are independent of human agency; but the distribution of wealth is, of course, entirely subject to human control. Men may regulate the distribution of wealth by any rules or principles of their own creation; and it is the purpose of political economy to explain the consequences which must follow from the rules which may be adopted, or from the principles which may be brought into action. It is, for instance, quite optional with men whether they allow custom or competition to regulate the distribution of wealth, but it is not optional with them to control the effects which follow when a particular custom has been adopted, or when competition has regulated a transaction. In England competition is far more active than in almost any other country, and therefore many of the practical conclusions of political economy must be somewhat modified before they are applied to other countries, where, perhaps, custom is far more powerful than competition. In England competition regulates the rent of land; but in many parts of Italy, according to an invariable custom, metayer rents are

*The distribution of wealth is affected by custom and competition.*

BOOK II.  
CH. I.

*Inequalities of wealth necessarily follow the institution of private property.*

paid, that is, a fixed proportion, originally one half, of the produce is given for the use of the land. In England, again, the produce of the land is shared amongst three classes—landlords, farmers, and labourers; but throughout the greater part of the world the produce is shared only amongst two classes, the landlords and farmers being combined in one, like the ancient freeholders of England; or the farmers and labourers are merged into one class, like the miserable cottiers of Ireland. On the continent of Europe peasant proprietors are very numerous, and in these cases the individual owns the land, cultivates it himself, and likewise provides the capital. It will be necessary to trace the consequences which arise from these various arrangements.

The greatest inequalities of wealth are sure to follow the institution of private property; and the wealthier a country is, the more striking is the contrast between the wealth and the poverty which have throughout the history of the world accompanied each other. Various schemes have been propounded with the view of causing the wealth which is produced to be distributed more equitably; but if the State confiscated the property of every individual in England to-morrow, accumulated the whole wealth of the country in one great fund, and divided all the land equally amongst the inhabitants, there would gradually arise the same inequalities of wealth which exist at the present time. The industrious would soon obtain those portions of wealth which were allotted in this national distribution to those who were indolent and deficient in industrial capacity. Men are differently endowed by nature, and those who possessed strength and ability would soon become wealthy, and those who were less strong and less able would quickly return to comparative poverty. If, therefore, private property is permitted, and if men can indisputably claim as their own the wealth which is distributed to them as the reward of their labour, there must result great inequalities of wealth. And these inequalities will be increased if a person is allowed to devise his property by will; for a man who has already a great deal of property of his own may have left to him the property possessed by four or five other wealthy individuals.

Benevolent men, deeply impressed with the widespread

*Schemes*

poverty which prevails even in the most wealthy countries, have rightly perceived that such great inequalities of wealth must always exist if the privileges of private property are freely permitted; consequently, philanthropists have been frequently prompted to advocate schemes of social life in which private property shall not exist, but all the wealth of the community shall be enjoyed in common. This is the fundamental idea which has suggested socialism or, as it is often termed, communism. No philanthropists have ever been more unpopular than the socialists; but much of this antipathy is no doubt due to the popular error that they are anxious to limit the rights of private property by means of wholesale confiscation. Such a charge, however, is extremely unjust. When socialism has been attempted, the property upon which the experiment has been made has been fairly and legitimately obtained. The socialists may have been mistaken theorists, but let us not deal harshly with them. They have often made noble sacrifices in order to battle against great defects in the state of society; they have sometimes effected great practical good, and the experiments they made, even when they have been unsuccessful, are always worthy of attentive reflection.

Socialism, as propounded by St Simon, Owen and Fourier, proposed that a society living together should share all the wealth that was produced. A number of families would, according to this scheme, live together on the same terms as the individual members of a single family. When a family settles in the backwoods of Canada, each member of the family labours on that work to which he or she may be best suited. In such a case the labour of each renders some assistance to all the rest, and then the results of the labour of the whole family are shared in common. Such a society, however, can only be kept together by the strong ties of family affection; and it is manifestly impracticable, in the present state of society, to maintain a similar union between several distinct families. Although the difficulties which oppose socialism may be patent to all, yet it is well to consider some of the evils which it seeks to remedy. In a state of society like our own, established on the basis of private property, everything tends to heighten the disadvantages which

BOOK II.  
CH. I.  
*avoid this  
inequa-  
lity;  
socialism.*

*Schemes  
proposed  
by St Si-  
mon, Owen  
and Fou-  
rier.*

BOOK II.  
CH. I.*Difficulties  
in these  
schemes.**St Simon's  
plan for  
avoiding  
these diffi-  
culties.*

result from comparative defects in natural endowments. The strong and able are permitted through life to appropriate to themselves all the fruits of their own labour, and the weak and less able are constantly, as it were, borne down in the struggle. But in order to remedy these evils by any form of socialism, an amount of virtue is required which is rarely possessed at the present time. The utmost self-denial and the widest charity will also be needed; in fact, men must become a higher order of beings, before they will work through life, not for the benefit of themselves, but for the purpose of contributing their labour to the advantage of the community to which they belong. Some of the practical difficulties, however, here suggested were partly obviated in two systems of modified socialism which were propounded with great ability by St Simon and Fourier, who both proposed that the enjoyment of private property should not be altogether forbidden.

St Simon's scheme was specially intended to provide some machinery for the arrangement of the labour in a socialistic society, for without some such arrangement all would be in confusion; there would be no security that individuals would be employed on the labour for which they were best adapted, and every one would be anxious to avoid all disagreeable work. St Simon, therefore, proposed that chiefs of the community should be appointed, who should equitably distribute the labour which had to be performed, and should also determine who were to be ordinary labourers, and who were to be skilled artisans. These chiefs not only distributed the labour, but also distributed the results of the labour; they allotted to each individual the share of the wealth to which they considered he was fairly entitled; and the share which an individual thus obtained he was permitted to enjoy as his own private property. But nothing can be more impracticable than this scheme, unless there should happen to be such a marked distinction between the individual members of the community and its chiefs that the right of the chiefs to dictate and to govern could not be disputed. The Jesuit missionaries established such a community with great success in Paraguay; but between these missionaries and the community they controlled, there was the difference

which distinguishes civilisation from barbarism. But no body of men would ever consent to delegate to any of their fellow-countrymen powers which would entirely subjugate their own individuality; and St Simonism, even if it alleviated poverty, would introduce greater evils; for men and women are in a pitiable state of subjection if they are not free to choose the labour upon which they should employ their energy.

The scheme proposed by Fourier was much more skillfully designed; he intended that each separate community should consist of about 2,000 persons, who should be settled on a square league of ground; he not only permitted private property, but allowed property to be obtained by inheritance. Every member of this community would receive a certain remuneration, even if he were not able to work. Fourier also recognised the claim of capital to be rewarded; the community were combined like a trading company to produce wealth, and after a certain competence, considered necessary to support life, had been allotted to every individual, the remaining produce was divided as a reward for labour, capital, and talent. The administration of this division of the produce was arranged by the heads of the community according to the following plan:—The labourers were divided into three distinct grades, which marked different standards of skill and talent, and the remuneration received by each of these grades varied according to a fixed proportion. The particular grade to which a workman was admitted, was determined by the vote of his fellow-workmen; there was community of labour, but not community of living; it was also proposed, for the sake of economy, that each family should have its separate apartments in the same block of buildings. The first objection that will probably be made to this scheme is the following: that very soon the industry of a community would be destroyed by its members regarding exertion as unnecessary, if a livelihood were always ensured to those who did not work. Exactly the same objection may be brought against our Poor-Law system, and yet England has obtained a great commercial position in spite of this impediment to her industrial progress. Internal dissensions would be the greatest difficulty against which the scheme of Fourier would have to

*Fourier's  
scheme.*

*Its chief  
difficulties.*

contend; men would be dissatisfied with the grade in which they were placed, and the chiefs of a community would occupy a position most difficult to maintain, for a man is most jealous of any interference with the details of his daily life. Again, if such a community were prosperous, and if wealth were more equally distributed than in the present state of society, all the members of the community would be sufficiently well off to marry at an early age; the result would be a rapid increase of population; the land possessed by the community would soon become not sufficient to supply the increased population with food; food would become much more expensive, and there would soon arise poverty and distress. We believe that all such schemes of socialism must entirely fail, if, in a country like our own, they attempt to displace a state of society based on private property. It is, however, advisable to allude to the principal socialistic schemes, because, at different times, they have excited great interest, and the speculations of the authors of these schemes are deserving of much careful attention. The difficulties which we believe will oppose the success of socialism have not been pointed out in a spirit of antagonism. A socialistic experiment may be made without inflicting the slightest loss or injury upon any but those who voluntarily take part in it. It is quite possible that such an experiment would dispel many of those objections which beforehand appear most formidable. Such an experiment ought then to be welcomed and not opposed, for socialism has always been mainly prompted by a desire to alleviate the poverty which presses so heavily upon a large portion of mankind.

*Voluntary  
socialism  
contrasted  
with com-  
pulsory  
socialism.*

We have been careful to point out that the socialistic schemes to which the attention of the reader has been directed were voluntary organizations. This constitutes one of their chief claims to favourable consideration. If the property upon which a socialistic experiment is made is fairly acquired, and if all those who join in the experiment do so entirely of their own free will, no injustice is inflicted on any one, and although the scheme may fail, yet it may be fruitful of good by suggesting the adoption of new social and economic arrangements. For instance, in our own country, various socialistic experiments were

made by Robert Owen. None of these obtained any permanent success; but the co-operative movement, which is assuming such significance at the present time, and which may not impossibly lead to a most important change in carrying on industry, undoubtedly had its origin in the ideas propounded by Owen and his followers. The essential characteristic of co-operation is a union of capital and labour. A certain number of labourers form themselves into a society to work for a common object, and they supply the capital which their labour requires. Co-operation may thus be regarded as a modified form of socialism; but as in a co-operative society each member's share of the aggregate wealth produced is apportioned to the amount of capital he subscribes to the common fund, as well as the quantity and quality of the labour he supplies, it is evident that an influence is thus brought into operation to stimulate each individual's energy. This constitutes the fundamental difference between co-operation and the socialistic schemes of St Simon and Fourier; for it has been pointed out that the chief obstacle which would prevent their achieving any practical success was the improbability that men would be found to work with sufficient energy if the reward they received for their labour was guaranteed to them, and did not depend either on their own abstinence, or upon the amount of their labour.

Although the socialistic schemes here described were voluntary organizations, yet it is important to bear in mind that the influence of the State may be used to enforce some form of socialism upon a country. It is almost needless to say that whenever such an attempt is made, it should be most narrowly watched. Probably the best definition that can be given of socialism is, that it enables a man to rely upon a society or community for maintenance instead of upon his own individual efforts. In the schemes of Fourier and St Simon, a certain number of persons formed themselves into an association or company, and guaranteed to give maintenance to each other. No one can deny the right of a number of individuals to enter into such an arrangement as this. It may however happen that people, instead of promising maintenance to others as a voluntary act, may be com-

BOOK II.  
CH. I.

pelled to do so by law. A notable example of such compulsion is afforded by our Poor-Law system, for it confers upon every individual a legal claim for maintenance. If a man is in a state of destitution he can claim parochial relief, even if the destitution is entirely caused by his own indolence or imprudence; he can thus compel other people to keep him whether they wish to do so or not. We shall in a subsequent chapter discuss the general effects produced by the Poor-Law. We have referred to the subject here, because it affords an example of a practical adoption of the socialistic principle by the State. Not only has a powerful encouragement already been given to socialism by the State, but many who would be foremost in their denunciations of socialism are constantly bringing forward proposals which would extend the influence of socialism in its most mischievous form. Thus it is not unfrequently said, that parochial relief ought to be granted on more easy and liberal terms. But if such a suggestion were carried out, it is evident that an increased inducement would be offered to people to depend upon society rather than upon their own efforts for maintenance, and thus the socialistic influence exercised by the Poor-Law would be greatly extended. As another illustration, it may be mentioned that an increasing number of people are now urging the adoption of a general system of free primary education. It is, however, obvious that a new and important recognition would be given to socialism, if the entire expense of educating children were transferred from the parent to the State. If such a transfer were sanctioned, it might afford a precedent for transferring the entire burden of maintaining children from their parents to the State.

*The growth  
of socialis-  
tic princi-  
ples at the  
present  
time.*

Nothing seems to be a more marked tendency of the present day than the growing inclination there is to seek the intervention of the State in matters which before were left to individual effort. This reliance upon the State may be regarded as an essential characteristic of socialism in its present phase, and we shall have occasion to describe the important economic influence which may be exercised by such an application of the socialistic principle. Thus in discussing the subject of the nationalization of the land, it will be shown that this is just



such an application of the socialistic principle as that to which we are now referring. Nationalization of the land means that all the land in the country should be bought by the State, and distributed at what is termed a fair price among the entire people. The advocates of the scheme hope that in this way, through the intervention of the State, all those who wish to possess land would not have to wait until they could purchase it in the open market, but would be able to obtain it from the State whenever they wanted it, on reasonable terms. We have here only referred to the scheme as affording an example of what we wish to signify by modern socialism. We will postpone any further discussion of it to a subsequent chapter.

BOOK II.  
CH. I.

## CHAPTER II.

### THE CLASSES AMONGST WHOM WEALTH IS DISTRIBUTED.

BOOK II.  
CH. II.

*The classes  
amongst  
whom  
wealth is  
distributed.*

*Their  
shares are  
termed  
rent,  
wages and  
profits.*

IT has been shown that the three requisites of the production of wealth are land, labour and capital. Since, therefore, land, labour and capital are essential to the production of wealth, it is natural to suppose that the wealth which is produced ought to be possessed by those who own the land, labour and capital which have respectively contributed to its production. The share of wealth which is thus allotted to the possessor of the land is termed rent; the portion allotted to the labourer is termed wages, and the remuneration of the capitalist is termed profit. The remuneration therefore received in the form of rent, wages and profits, represents the three distinct claims which individuals have upon any wealth which is produced. Having pointed out that wealth is distributed between rent, wages and profits, we must proceed to enunciate the laws which regulate the comparative amounts of rent, wages and profits. In different countries these relative amounts vary greatly; for instance, rents are much higher in England than in Australia, and wages are much lower in the one country than in the other. The rate of profit is also much greater in Australia than in England. In Australia, ten per cent. may be obtained on the security of a freehold mortgage, whereas in England a similar investment will not yield more than four or four-and-a-half per cent. Without, therefore, inquiring whether Australia is more productive of wealth than England, it is very important to establish principles which will explain why wealth is so very differently distributed in the two countries. Other countries present equally striking points of difference.

It has been shown that wealth is distributed in three shares, namely, rent, wages and profits: because land, labour and capital are essential to the production of wealth; and rent, wages and profits represent the service which has been rendered by each of these agents of production. It must not be supposed that rent, wages and profits are always received by distinct individuals. In England, as a general rule, there are these three distinct classes of recipients, who are respectively named landlords, labourers and employers. The landlord seldom supplies either capital or labour; the capital is advanced by the employer; and the labourer has very rarely any capital invested in the industry upon which he is employed. But the economic condition of England differs, in this respect, more widely from that of other countries than is usually supposed; in fact, it is rather the exception than the rule, that wealth should be distributed in the form of rent, wages and profits, amongst distinct and separate classes of individuals. In the south of France, in Italy, in Flanders and in other parts of the continent, peasant proprietors occupy a great portion of the land. It is intended to signify, by a peasant proprietor, a man who cultivates a small quantity of land which is his own property; he himself supplying all the labour and capital which are required. In such a case, the produce is not distributed into rent, wages and profits, for one individual is entitled to all the produce which is raised, since he owns the land, and has also contributed the labour and capital. Although the whole produce is, as it were, heaped together, without being divided into three portions corresponding to rent, wages and profits, yet the remuneration obtained by the peasant proprietor is composed of three distinct parts. These are combined, but they may be separately estimated in the following manner. If the land cultivated by the peasant proprietor were not his own property, he would be obliged to pay a certain rent for its use. A portion of the produce, therefore, equal in value to the amount which would be thus paid, represents the rent. Again, if the capital employed by the peasant proprietor was borrowed from some one else, a payment must be made for the loan, and therefore a portion of the produce, equal in value to such a payment, indicates the profit, which is a fair remuneration

*These shares are not always payable to different individuals.*

*The peasant proprietor receives all the three shares of the produce of his land.*

BOOK II.  
CH. II.*Cases of  
India and  
of slave-  
owning  
countries.*

for the capital which the peasant proprietor employs. Again, the portion of the produce which represents wages may be ascertained by estimating the wages which would have to be paid if the peasant proprietor, instead of working himself, cultivated his land with hired labour. Such an estimate as that we have just indicated is often of great practical importance. The comparative advantages and disadvantages of farming by peasant proprietors have long been keenly disputed. In order to decide this important question, we must pursue the following method. From the whole produce which is raised upon the land cultivated by a peasant proprietor, there must in the first place be deducted an amount which represents the rent this land would pay; there must also be deducted a certain amount for labour and capital, and if a surplus remains, it will represent the advantage of farming by peasant proprietors. We shall, in another chapter, have occasion to enlarge on this subject.

A great portion of the land of India is occupied, not by peasant proprietors, but by peasant cultivators. The land is generally owned by the government. The peasant cultivators often rent from the government a small portion of land, which they can cultivate with their own labour and capital. Sometimes the government grants the land at a fixed rental to individuals who occupy the position of middle-men, and who re-let the land to peasant cultivators. Land which is cultivated by slaves is in an anomalous position, for in this case it would appear that the whole produce is shared between rent and capital, since the slaves must be regarded as a portion of the slave-owner's capital, just in the same manner as the horses which plough our own soil are a portion of an English farmer's capital. The slaves do not receive any wages; they cannot accumulate wealth; they have none of the rights of property. The slaves are fed, it is true; but so are the horses fed. The economic condition of a slave country differs so much from other countries that it is proposed to discuss some of the economic aspects of slavery in a separate chapter.

The reader may remark that in the general observations made in this chapter on the distribution of wealth we have only considered agricultural produce. This has been done because similar although somewhat more complicated

laws regulate the distribution of the wealth which is created by manufacturing industry. All the materials upon which manufacturing industry is employed are products obtained from the land. Thus, wool is an article of agricultural produce. When wool is woven into cloth, it is rendered much more valuable. How, then, is this wealth distributed which is added to the wool by manufacturing it into cloth? Wool, and such other raw materials of manufacturing industry, are purchased by the manufacturer, and become a portion of his capital, and the wealth produced by manufacturing industry is finally distributed between capital and labour; in fact, there are two distributions. The raw produce, or, more correctly, the money with which the manufacturer purchases this raw produce, is distributed in a similar manner to other agricultural produce; after this raw material has been manufactured, another distribution takes place between the labour and the capital which have been employed in the production of the manufactured commodities.

When it is stated that wealth is distributed in the form of rent, wages and profits, it must not be supposed that the labour which has directly contributed to the production of the wealth is alone remunerated. Before agricultural produce is brought to the market, the industry of many other labourers has been called in besides those who are actually working on the farm, all of whom will receive a certain share of the produce in the form of wages. A farmer may employ bargemen to take his wheat by canal to a particular market, but these bargemen must be paid wages, just in the same way as labourers who are employed on the farm. Again, a farmer may join with others to pay labourers for keeping the roads in a proper state of repair; from him, also, are levied rates which maintain a police establishment, considered necessary to make property secure. We shall hereafter inquire on whom these burdens fall.

The amount which in any particular case the landlord, capitalist, or labourer receives is regulated either by competition or by custom. In almost every case competition and custom exercise a joint influence; but competition not unfrequently acts so much more powerfully than custom, that it may be virtually regarded as the sole

BOOK II.  
CH. II.

*Manu-  
facturing  
industry.*

*Remunera-  
tion due to  
labour  
when in-  
directly  
produc-  
tive.*

*Relative  
importance  
of compe-  
tition and  
custom.*

BOOK II.  
CH. II.

determining cause. It is impossible to enumerate all the important customs which influence various trades, but it will be necessary to trace the effect of customs more wide and constant in their operation, such, for instance, as those which regulate the rent of land. The metayer rents which exist in many continental countries may be quoted as an example of one of these customs; for where this tenure prevails the rent paid for the use of the land is always equivalent to a fixed portion of the produce. This portion is generally one-half.

*Beneficial  
effects of  
competi-  
tion*

*upon the  
labouring  
classes.*

It may, however, be remarked that as a nation advances in industrial enterprise all her commercial transactions are more completely regulated by competition. There cannot be activity of trade without a keen desire for gain; but such a feeling indicates the spirit of competition, for in business men compete with each other with the view of securing the greatest possible gain. It is, however, important to present competition in a somewhat different aspect; for the manner in which it has been here described may very possibly encourage the widespread error that with it there is associated something almost criminal. Many who profess to be social philosophers attach to competition the stigma of selfish greed. The poverty of the poor is often attributed to it; but we shall have reason to show that it is no enemy to the working-classes. Without it, their poverty would be rendered doubly severe; for it is an active spirit of competition which maintains the capital from which the wages of the labourers are paid. Competition befriends the working-classes in other respects; it cheapens commodities, and ensures that the maximum of wages shall always be paid. Competition is not confined to one class; it may be as rife among buyers as among sellers, or among the employers as among the employed. Individuals who have goods to sell are anxious to realise as large profits as possible; but when there is competition, a trader cannot be paid more than what is termed a fair price for his goods, because if he attempts to obtain more than the ordinary price he will be undersold by other traders. When buyers compete with each other they are anxious to secure the greatest gains, or in other words, to buy upon the best possible terms; and thus, when buyers are each intent on pur-

chasing on the most favourable terms, a commodity is sure to realise what it is worth. It therefore follows that if on the one hand competition prevents a trader obtaining exceptionally high profits; on the other hand, it ensures to him a fair price for his goods. Some, perhaps, may think it unfortunate that employers, stimulated by a desire to realise the largest gains, should seek to engage their labourers on the lowest possible terms. But such conduct upon the part of the employers inflicts no injury upon the labourers; for whenever there is activity of competition, an individual manufacturer or trader is as powerless to get labourers to work for him at less than the ordinary wages as he would be to buy cotton at a cheaper rate than his fellow-manufacturers. The price of cotton is maintained because there are those who are anxious to purchase it; the rate of wages is also maintained by those who are anxious to purchase labour. Competition, consequently, exerts no tendency to reduce profits or wages; the tendency is rather one of equalisation.

Competition acts with far greater force in some countries than in others. In England the commercial spirit is so active that we are liable to forget that in some countries various transactions, such as the renting of land, the hiring of labour, and the sale of commodities, are regulated by custom to a far greater extent than by competition.

It has been often remarked that all men are more or less the slaves of habit. Every nation has some customs which become, as it were, engrafted on its existence; customs, which in their origin were perhaps purely social, have in many cases, after a certain lapse of time, produced effects of great pecuniary consequence. In this way the results which would ensue if competition freely operated are often interfered with; for men not unfrequently pay the most implicit obedience to a custom, even when they are not bound to do so by law. It has already been stated that, in parts of the continent, the landlord uniformly receives as a rent one-half the produce of the land; he never thinks of asking more or less, although his land might very likely yield him a larger income if it were let to the tenant who consented to

*Competition varies in intensity in different countries.*

*Effects of this in the case of rent.*

pay the highest rent for it. In many professions the charges made are absolutely fixed by custom. Lawyers and physicians do not adjust their charges like ordinary traders; the charges are regulated by the custom of the profession. Equally rigid customs affect many classes of labourers; artisans in particular trades must serve a fixed term of apprenticeship, and the wages received are often determined by customs which, though perhaps not so rigidly observed as some others, yet are frequently not easily modified.

Having, therefore, shown that the distribution of wealth may be primarily classified into rent, wages, and profits, we shall, in the first place, explain how the amount which is received in the form of rent, wages, and profits is determined when regulated by competition; and we shall then, secondly, proceed to explain the different results which follow, when the distribution of wealth is affected by such customs as those which have just been indicated.



## CHAPTER III.

### RENTS AS DETERMINED BY COMPETITION.

A COMPREHENSIVE history would have to be written, if it were attempted fully to describe the origin of property in land. Every country has probably been subjugated, and grants of the vanquished territory were the ordinary rewards which the conquering chief bestowed upon his more distinguished followers. Some families in this country still retain the lands which their ancestors received from William the Conqueror. Lands obtained by force had to be defended by force; and before law had asserted her supremacy and property was made secure, no baron was able to retain his possessions unless those who lived on his estates were prepared to defend them. There thus arose almost universally some personal relations between landlord and tenant, and the personal services which such a feudal tenure required formed a considerable part of the rent which was paid for the land. As property became secure, and landlords felt that the power of the State would protect them in all the rights of property, every vestige of these feudal tenures was abolished, and the relation between landlord and tenant has thus become purely commercial. A landlord offers his land to any one who is willing to take it; he is anxious to receive the highest rent he can obtain. What are the principles which regulate the rent which may thus be paid?

We all know that the more fertile land is, the higher will be its rent. We are also aware that the rent which land yields not only depends upon fertility of soil, but also upon convenience of situation. Land which is remote from towns does not pay so high a rent as land

BOOK II.  
CH. III.

*Historical  
origin of  
rent.*

*How is the  
rent of a  
given tract  
of land de-  
termined?*

BOOK II.  
CH. III.

*Short  
statement  
of Ricar-  
do's theory  
of rent.*

of equal fertility, situated at a short distance from some large centre of population. The relative rents, therefore, which are paid for different farms are determined by fertility of soil and by convenience of situation. It will be generally admitted that the value of land depends upon the two causes we have just mentioned, but the important question to answer is this: Can we obtain an index to the amount of rent which land can afford to pay at any particular time? The object of the present chapter is to supply an answer to this question.

In every country there is the greatest variety in the productiveness of the land<sup>1</sup>; high rents are paid for the use of some land, whereas other land not far distant may be too poor to be cultivated. Let it be supposed that there are two farms which are rented at different rates; the one farm is rented more highly than the other because its soil is more fertile or its situation more convenient, and the difference in the rents paid by these two farms would indicate the pecuniary value of the superior productiveness of the one farm over the other. There may be another tract of land so poor that, if cultivated at all, it could only bear a nominal rent; for land will only pay a nominal rent when the produce raised from it is no more than sufficient to return the average rate of profit upon the capital spent in its cultivation. If we compare such barren land with land which pays a considerable rent, then, as we have just remarked, the difference in the pecuniary value of the superior productiveness of this better land may be measured by the difference in the rents paid by the good and barren land respectively. But this difference is denoted by the whole rent paid by the good land, since the rent of the poor land is assumed to be merely nominal; or, expressing this in other words, it may be stated, that the rent of land represents the pecuniary value of the advantages which such land possesses over the worst land in cultivation, the rent which this worse land yields being merely nominal in amount.

<sup>1</sup> The value which land receives from these two causes, viz., fertility of the soil and convenience of situation, will throughout be designated by the word "productive." Vide pages 46, 47.

The proposition which has just been enunciated, and the simple reasoning by which it has been established, may be regarded as a statement and a proof of Ricardo's celebrated theory of rent. The theory, as here expounded, may appear so simple, nay, perhaps, so obvious, that our readers will not readily appreciate its importance, nor will they perhaps believe that the theory itself has been warmly controverted by eminent men. It will be advisable to consider the ordinary objections urged against the theory, for we shall be able thus still farther to elucidate it, and these objections will afford an appropriate example of the popular prejudice which so frequently attempts to discredit the conclusions of science. One of the attacks on Ricardo's theory may be found in some prefatory remarks by the late Dr Whewell, prefixed to a 'Collection of Some Fragmentary Tracts on Political Economy, by Mr Jones'.<sup>1</sup> Dr Whewell objects to Ricardo's theory because the rent of land is, over the greater portion of the world, controlled by custom; and even in England, where land is let by competition, Dr Whewell maintains that this theory is never employed to settle the rents that are paid; he therefore made two specific allegations: his first position is, that the theory is of comparatively little value because of its limited application, and, secondly, that it can be of no practical importance even in the exceptional cases where it may be regarded as capable of a practical application. In this chapter we shall confine our attention to the last of these allegations; the modifications which the theory requires, when rents are fixed by custom and not by competition, will be considered in another chapter. No one can reasonably suppose that Ricardo, or any of those who adopt this theory, imagine that a land-steward avails himself of it when he is fixing the rent of any particular land. No farmer when about to rent a farm asks himself, What is the value of this farm above the worst land in cultivation? But these considerations do not afford any valid objections against the theory; it might as well be said that the laws of digestion and respiration are not worth explaining, because no one

*Dr Whewell's objections to this theory;*

*that it is rarely applicable, and that when applicable it is unimportant.*

*The last objection answered.*

<sup>1</sup> Mr Jones was Professor of Political Economy at the late East India Company's College at Haileybury.

BOOK II.  
CH. III.*Restate-  
ment of the  
theory.**Illustra-  
tion of the  
theory by  
an exam-  
ple.*

thinks of these laws when he eats or breathes. Although men of business do not use a theory of rent, and may have never heard the name of such a theory, yet unconsciously they follow the theory; and the theory will explain the practical consequences connected with the renting of land, as completely as if all who were engaged in such business transactions were political economists of the Ricardian type. The point, therefore, to be determined is, not whether the theory is used, but whether the theory is universally true when rents are determined by competition. Let us again expound the theory; and we think it will be admitted that each of the positions which it assumes is incontrovertible. It cannot be denied that the land of each country varies so greatly in productiveness, that there always exists some land which is either so barren or so disadvantageously situated that it is just on the margin of cultivation, and can only pay a nominal rent. Land which is more productive will pay a rent, and such rent must represent the difference in the value between this better land and that land which is so barren that it can only pay a nominal rent. But this value is represented by the difference in the net produce obtained from the two lands in question, and hence the rent of any particular land may be estimated as the difference between the amount which it produces and the amount of produce raised from the worst land in cultivation. This is the ordinary enunciation of Ricardo's theory; the terms however in which this enunciation is expressed require some explanation. In the first place, it should be remarked that net produce, not gross produce, is meant.

The necessity of making this distinction may be illustrated by an example. Let us, for instance, suppose that there are two farmers, A and B, and that one of these, A, occupies a much more productive farm than the other, B. Now the gross produce of a farm is the whole produce which is raised from it, without deducting the expenses of cultivation. But the surplus produce which remains to the farmer cannot be ascertained until from this gross produce are deducted all the expenses connected with the farm. A certain sum must also be deducted as interest for the capital invested in the farm, and the farmer should also estimate his own labour of superintendence at a

certain pecuniary amount. All these deductions may be regarded as forming in the aggregate the cost of cultivation; and when such deductions have been made, the produce which remains is the net produce; or, in other words, the net produce is obtained by deducting the cost of raising the produce from the pecuniary value of this produce. If, therefore, it were ascertained that the net produce of A's farm exceeded by 1,000*l.* the net produce of B's farm, it is manifest that A would be able to pay 1,000*l.* more rent than B. If B's farm was so poor that he obtained it at a merely nominal rent, the amount of its net produce would be also nominal. But it may be said, If such were the case, B would not continue to cultivate the farm; this, however, need not be so, because it has been supposed that the net produce is that which remains, after every expense connected with the farm has been paid, and after an adequate remuneration has been given to the farmer for his own labour and for the use of his capital; therefore, it would answer B's purpose to cultivate his farm, although the net produce was merely nominal, if he could obtain the farm at a nominal rent. But, since we have supposed that the net produce of A's farm exceeds by 1,000*l.* the net produce of B's farm, A would be able to pay this 1,000*l.* as rent, and, therefore, the rent of any land is the difference between its net produce and the net produce of land which pays a merely nominal rent. Moreover, we shall proceed to show that this amount of rent, namely 1,000*l.*, which from theoretical considerations we have proved that A is able to pay, will be approximately the rent which is actually paid if land is let by open competition. Experience proves that men are satisfied to continue in business if they can realise the current rate of profit upon their capital, and also obtain a certain remuneration for their own risk and trouble. Let it be supposed that A's landlord demands from him a rent of 1,000*l.*—this sum representing in value the net produce of the farm—the profits he obtained upon his farm would still be sufficient to induce him to continue his business. If, however, he were called upon to pay a greater rent than this, say 1,500*l.*, a year, his profits would be so diminished that he would not be able to obtain the same return for his capital as if it were invested in

*The theoretical result coincides with the practical result, assuming freedom of competition.*

some other business. He would virtually lose by farming because he could make more of his money if otherwise invested; and no class of traders will continue a business when it becomes comparatively unremunerative. The landlord would therefore be powerless to obtain from A a rent much exceeding 1,000*l.* But there is a further question: What would prevent the farmer paying a less rent than 1000*l.*, say a rent of 700*l.*? This would certainly be prevented by the competition of others anxious to engage in farming operations. Those who had a practical knowledge of farming would be able to calculate with considerable exactness what would be the net produce on A's farm, and they would thus know that if A was only paying a rent of 700*l.* a year, that he was paying 300*l.* a year less than might be paid, with a realisation of a fair profit to the farmer. Others would come forward and offer a higher rent for the farm, and A would consequently be obliged to leave the farm or else pay a higher rent.

It is, therefore, no exaggeration to say that when land is freely competed for, rents are approximately adjusted, according to Ricardo's theory. We say "approximately," because there is a certain margin of variation for which allowance ought always to be made. Thus, two land-agents may differently value the net produce of a farm. A landlord, rather than lose an old tenant, may often continue to receive less rent from him than a new tenant would be willing to pay; but in such a case competition is to a certain extent interfered with by the feelings which arise from affection and old association. Ricardo's theory is strictly true upon the supposition that there is free competition, and in practical life the results which may be deduced from the theory really occur in proportion to the extent to which competition acts without interference from other disturbing agencies. It is no uncommon thing to say that the sun causes the earth to revolve in an ellipse, and yet the earth never does so move, it oscillates from one side to the other of this ellipse in consequence of the disturbing force of each planet's attraction. For many of the practical purposes of astronomy, it may be stated with sufficient exactness that the orbit of the earth is a true ellipse; and just in a similar way, in a country such as England, competition is so much more powerful than any

*Illustration from astronomy.*

of the other motives which influence the adjustment of rents, that it will be sufficiently exact to affirm that the rents which are actually paid are those which would be deduced from Ricardo's theory. In some cases, however, other motives, which may be regarded as antagonistic to free competition, assume so much importance that they must be specially considered.

It will much assist clearness of conception, if we employ some technical language to describe the terms of Ricardo's theory. This theory implies that in any given condition of a country there is some land which will just pay for cultivation if it is let at a nominal rent. Thus, as it were, a *margin of cultivation* is marked, below which the cultivation of land cannot descend, unless some circumstances should occur which should either induce men to be satisfied with smaller profits, or should increase the productiveness of land; it must be borne in mind that there are two ways in which the productiveness of land may be increased; in the first place, a larger demand for agricultural produce may raise its value, and, in the second place, agricultural improvements may cause a greater amount of produce to be obtained from the soil. In the example which we have employed, it has been supposed that this margin of cultivation has been denoted by the farm occupied by B; for the produce which is raised from this farm only suffices to pay the expenses of cultivation, and to return B a fair remuneration for his capital and for his personal exertions. Under these conditions the land will pay no rent. Various circumstances, however, may occur which will enable rent to be obtained from this land, or, in other words, would cause the margin of cultivation to descend. Let us, therefore, inquire into some of these circumstances.

It has already been remarked that the current rate of profit which prevails in different countries varies greatly. In Australia ten per cent. can readily be obtained on the security of a freehold mortgage, and a merchant in that country would not think of incurring the risk and trouble of investing his capital in trade, unless he could make a much larger profit than ten per cent., because he could secure this profit without risk or trouble upon a freehold mortgage; therefore, traders in that country would not

*The 'Margin of cultivation.'*

*The margin of cultivation depends upon the rate of profit in each country.*

BOOK II.  
CH. III.

continue their business unless their profits were very much more than ten per cent. But in England five per cent. can scarcely be obtained on a freehold mortgage, and a trader would be perfectly satisfied with his business if a profit of ten per cent. were realised on the capital invested in it. We shall hereafter inquire into the causes which produce these great variations in the rate of profit in different countries. In Holland a still lower rate of profit prevails than in England. Let it be assumed that in this respect England became like Holland, and that the English would be satisfied with a rate of profit so reduced that they would lend money to their government, as the Dutch have done, at the small interest of two per cent. If such a change occurred, men of business in England would be satisfied with a smaller profit than they are now, and would be ready to invest their capital in businesses which would produce them a lower rate of profit. But such a change would at once affect the margin of cultivation. Before the change occurred, no worse land is brought under tillage than that which is cultivated by B, because, although he pays only a nominal rent for his land, yet he cannot do more than realise a certain profit upon his capital, say a profit of ten per cent.; and it is assumed that with a less profit than this, men of business will not be satisfied. But when the change we have supposed has taken place, a lower rate of profit will prevail throughout the country, and men will now be satisfied with a smaller profit. Hence worse land than that which was before cultivated by B, would return sufficient to give that lower rate of profit with which men are now supposed to be satisfied. The margin of cultivation would therefore descend, the land occupied by B would cease to be the worst under cultivation; and this land, instead of paying a nominal rent, would now yield a rent which might be estimated by the difference between its net produce and the net produce of the inferior land which has been brought under cultivation in consequence of the reduction in the general rate of profit. It is, therefore, manifest that such a reduction in the general rate of profit would cause the rent of all land to rise. Australia will one day offer a striking example of a rise in the rent of land, caused in the manner we have just described. The great inequality in the rates of profit

*Case of  
Australia.*



current in England and Australia cannot permanently continue; and when profits in Australia are reduced to what they are in England, a vastly increased area of land will be brought under cultivation in Australia; the margin of cultivation will rapidly descend, and the rent of land will be greatly increased.

We will now discuss some of the other causes which may affect the rent of land. The productiveness of land has already been much increased, and is perhaps destined still farther to be increased, by improved implements. Confident predictions have been made by competent persons that steam cultivation will materially diminish the cost of tillage. If this be the case, the net produce of every farm, as we have defined it, will be greatly increased, and, therefore, rents will as a consequence rise from this diminution in the expense of cultivation. But when rents rise, the margin of cultivation will descend; for if the cost of cultivation is diminished by steam machinery, land may be profitably cultivated which before would not pay the expenses of tillage. The farmers, therefore, will ultimately receive no special advantage from the introduction of improvements in the method of cultivation. Temporarily they may be benefited; for those who first avail themselves of the improved machinery may for a long time continue to derive an important advantage, because, until the machinery has been generally introduced, rents will not be raised. Ultimately, however, the whole of the advantage will be absorbed by the landlords; for if the expenses of cultivation are diminished, the farmers will be able to pay a higher rent, and the competition of capital will render it impossible to resist the increase of rent. We have purposely said that the landlords, and not the farmers, will derive a *special* advantage, because, in one sense, the farmers, conjointly with every other class in the community, will be benefited, since, if the expenses of cultivation are diminished, the cost of production is diminished, and, therefore, food will be cheapened. The effect which may be thus produced by cheapening food, at once suggests questions of the greatest importance. These, however, we must reserve until we treat of exchange, in the next division of the subject.

We will here take the opportunity of remarking that

*Rent is affected by improved methods of cultivation.*

*These conclusions*

BOOK II.  
CH. III.

*will require further consideration when we come to speak of value.*

we have as yet said nothing about the value of those shares into which any wealth which is produced may be distributed. All such questions with regard to value cannot be appropriately considered until we treat of exchange. When, therefore, in this chapter we have alluded to particular circumstances which will increase rents, we attribute the increase not to any rise in the price of agricultural produce, but we refer the increased rent entirely to a different distribution of the produce of the land, more advantageous to the landlord. Thus the distribution will be changed in the following manner, when the use of improved implements diminishes the expense of cultivation: the profits of the farmer and the wages of his labourers will remain as they were before; but the landlord will receive, in addition to the rent which is previously paid to him, all that is saved in the expense of cultivation. It is very important to bear this in mind, because a confusion may arise very embarrassing to the reader; for in popular phraseology rents are often said to rise without any alteration in the relative amounts received by those classes amongst whom the produce of the land may be distributed. If, for example, a landlord's rent is a certain portion of the produce of the land, then his rent is said to rise if anything should occur to increase the value of this produce. Before the Tithe Commutation Act was passed, the tithe was a rent-charge amounting to one-tenth of the produce. If it had not been for this commutation, tithes for many years would have been increased by two distinct causes; for, in the first place, since more produce was obtained from the land, the tithe would be increased in quantity; and, secondly, even if the tithe were not increased in quantity, its amount would be increased so long as there was an augmentation in the value of agricultural produce. But we must postpone considering an increase of rent which is represented, not by a larger amount of produce, but by a rise in the price of this produce; for when discussing the distribution of wealth we must suppose that rent, profits, and wages are received in kind. Distribution is concerned with the laws which regulate the absolute and relative magnitude of those portions into which wealth is distributed; and it belongs to the subject of exchange to

examine the causes which determine the value of an individual's share of the profits derived from some industrial source, such as a farm or manufactory.

Returning, now, to those causes which affect rents in the sense just described, it becomes obvious, after what has been stated with regard to improved machinery, that rents must be increased by any circumstance which diminishes the expense of cultivation; and, conversely, rents must be diminished, if the expenses of cultivation should be augmented. Such an augmentation has during the last few years been caused by a rise in the wages of agricultural labourers; and this is one of the chief circumstances which has contributed to the very general reduction in the rent of land in England that has recently occurred. Agricultural labourers in this country have long been worse paid than any other labourers. Each year, however, many influences are brought more powerfully into operation, which will tend to remove such inequalities in the remuneration of different classes of labourers. Increased education will make those employed in agriculture more keenly desirous to sell their labour on the best possible terms. The rapid extension of our railway system enables labourers to pass easily from one district to another. Emigration has already materially raised the general rate of wages throughout the country; and the influence thus produced by emigration is probably destined to be much more strikingly exhibited. But if labourers receive higher wages, or, in other words, an increased share of the aggregate produce, there is a smaller remainder left to be distributed between rent and profits. It is of course here assumed that the productiveness of land, labour, and capital remains unchanged. If the rise in wages is accompanied with no reduction in the general rate of profit throughout the country, then rents must suffer. This is sure to be the case if the rise in wages is not general, but is confined to agricultural labourers, because, under such a supposition, nothing would have occurred to affect the general rate of profit in other businesses, and, therefore, the profits made by farmers cannot continue to be exceptionally lower than the profits realised in other trades. But the theory of Ricardo supplies a test which will indicate how rents are

BOOK II.  
CH. III.

*Causes  
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lower  
rents.*

*Rise of  
wages of  
agricul-  
tural la-  
bourers.*

BOOK II.  
CH. III.

*In what sense the interests of the labourer and landlord are opposed to each other.*

affected by any change in the economic condition of the country. This theory defines the rent of any particular land to be the difference between its produce and the produce of the worst land in cultivation which pays no rent. Therefore, the important thing to ascertain is, whether the margin of cultivation has or has not descended. If, for instance, the wages of agricultural labourers were materially to increase, without any alteration in the value of agricultural produce, and without the introduction of improved methods of tillage, much of the land which is now cultivated would cease to return any profit; the margin of cultivation would ascend, and there would be a general fall in rents. In this sense, therefore, the interest of the landlord is opposed to that of the labourer. Again, if the general rate of profit throughout the country were to rise, the profit realised by farmers would also rise. The poorest land in cultivation would not yield to the farmer this increased rate of profit. This worst land, therefore, would cease to be cultivated, the margin of cultivation would ascend, and in this case, also, the rent of land would be reduced. A rise, therefore, in the rate of profit, or in the rate of wages, unless accompanied by some counter-acting circumstances, will cause rents to decline. Hence, it would appear that the interest of the landlord is opposed to that of the labourer and the capitalist. This conclusion has been the source of much of the opposition expressed towards Ricardo's theory. But it is difficult to understand why such a conclusion should be regarded as so very objectionable. If the produce of the land is distributed amongst rents, wages, and profits, it is obvious that the more there is allotted to labour the less there will remain to be appropriated as rent. The opposition of interest intended to be expressed by Ricardo does not imply that the interests of any one class are opposed to the general welfare of the country, for all the three classes may participate in any general improvement. Thus, if an increased quantity of produce is obtained from the land, there will be more to be distributed, and rents, wages, and profits may be simultaneously increased. The opposition of interest which has been spoken of only refers to variations in the relative magnitude of those portions or shares into which wealth is distributed.

The rent of land, however, may be far more powerfully affected by an increase or decrease of population than by any other circumstance. Within a comparatively short period the population of Great Britain has increased 25 per cent. This implies that at least 25 per cent. more food is required. Let us for a moment consider what would occur if this increased supply of food had been obtained from our own soil. In the first place, more land must have been brought under cultivation; the farmer would be remunerated for cultivating this worse land by a rise in the price of food. The margin of cultivation would thus be greatly lowered, the rent of all land would therefore be greatly increased; the farmers would be able to pay these higher rents, because the price of agricultural produce had risen. It therefore appears that a very considerable rise, both in the rent of land and in the price of food, must have inevitably accompanied this increase in our population. The rise in the rent of land would, under such circumstances, be assisted by two distinct causes: in the first place, rents if received in kind would be increased, because the margin of cultivation has descended; and, in the second place, produce thus received as rent would have been rendered more valuable in consequence of the rise in the price of food. Although for many years, with this increase of population in England, there was an almost continuous rise in rent, yet the rise, which might otherwise have taken place, was checked by the increased demand for food being to a great extent supplied by foreign importation. During the last few years the rise in rents has not only been arrested, but there has been a very general reduction of rents. This is partly due, as previously explained, to a rise in agricultural wages, and is also partly due to the fact that as foreign importation prevented a rise in prices to compensate the farmer for bad crops, he had to submit to serious losses which in numerous instances have been only very partially compensated even by a considerable reduction of rent. As a corroboration of the truth of Ricardo's theory it may be mentioned that the reduction of rents to which reference has just been made has been shown by an upward movement of the margin of cultivation; for within the last few years of agricultural depression, especially in the heavy clay soil of such a county as Essex, considerable tracts of land have been thrown out of cultivation.

BOOK II.  
CH. III.

*Part of the actual rent paid may be considered as profit on capital.*

The remarks which have been made in this chapter on the subject of rent would seem to indicate that the rent of any particular soil depends upon its natural productiveness. But the value of land is rarely due entirely to its natural productiveness; little of the land which is now cultivated would be as productive as it is, unless capital had been spent upon it. The fens of Lincolnshire and Cambridgeshire were once worthless swamps, but drainage has now converted these fens into valuable arable land. In such a case, it would appear that the rent which is paid is almost entirely due to the capital which has been spent on these improvements. Hence this important question is suggested: Ought we to consider as rent the additional price which is paid for the use of land when its productiveness is increased by an outlay of capital on drainage and other such improvements? The rent of land the productiveness of which has been artificially created, differs in no single respect from the rent of land the productiveness of which has been chiefly derived from unassisted nature; and the amount of rent which is paid in these two cases is determined by the same causes. The farmer who cultivates a reclaimed fen, can afford to pay in rent just so much produce as is left to him, after all the expenses of his farm have been paid, and he has himself been reimbursed for his own labour and capital. He pays rent because he is allowed to cultivate a productive soil, and it is a matter of no concern to him whether the productiveness of the soil is due to natural or artificial causes. A portion of rent, therefore, may generally be considered to represent a return to capital which has been spent in improving the land. And thus rent, though generally paid in one sum to the same individual, is almost invariably made up of two distinct components which represent different claims, or, perhaps, more properly, different kinds of ownership in the soil. This may be readily shown by an example of frequent occurrence. The owner of a life interest in landed property is enabled by Act of Parliament to borrow money to be spent in drainage or other permanent improvements, such as the construction of better farm-buildings. The company or society which lends the money is guaranteed repayment by a rent-charge upon the land for a certain number of years. This

*Money borrowed for permanent improvements.*

rent-charge at the present time is usually six per cent. on the money lent, to be annually paid for twenty-two years. The tenants, who receive the first immediate advantages of these improvements, gladly allow this rent-charge to be added to the rents which they previously paid; and, in this manner, their rents are composed of two portions, one of which is paid for the use of the land, and the other is paid as a return to the capital which has been expended in improvements. A nobleman, whose family have been long embarrassed, and whose estates have been consequently much neglected, has, in this manner, within the last few years spent £70,000 in improving his estates. The whole of this sum has been borrowed upon the conditions above described. The advantages which have resulted from this expenditure have been so great and so immediate that the tenants can afford to have their rents increased by a much greater amount than the rent-charge of 6 per cent., guaranteed to the company which has lent the money. The landlord therefore does not, even in the first instance, incur any pecuniary sacrifice for these improvements, but, on the contrary, he at once obtains an increase of rent, and after the twenty-two years have elapsed he is able to appropriate to himself the entire benefits which arise from this improvement in his land. It seems difficult to explain why landlords who have not capital of their own do not more largely avail themselves of the great facilities which are offered to them for obtaining the requisite capital to improve their estates. Although in many instances the land of England has been greatly improved in recent years, yet in every county many important agricultural improvements, such as drainage and the construction of better farm-buildings, still require the expenditure of a considerable amount of capital, to which not only a large prospective but even a large immediate profit would be returned.

From Ricardo's theory of rent there can be deduced the very important proposition, that rent is not an element of the cost of obtaining agricultural produce. A no less eminent writer than the late Mr Buckle has assured his readers that the proposition just stated can only be grasped by a comprehensive thinker; we, however, believe that it may be made very intelligible by a simple exposition. If rent is not an element of cost of production, food would

*Rent is not an element of the price of agricultural produce.*

BOOK II.  
CH. III.

Simple  
proof of  
this propo-  
sition.

be no cheaper if all land were arbitrarily made rent free. Let us, therefore, inquire if this would be the case. It has been frequently stated in this chapter that there is always some land in cultivation so poor that it can only afford to pay a nominal rent, the produce it yields being no more than sufficient to reimburse the expenses of cultivation.

Let us now suppose that all land is made rent free by an arbitrary edict of the Government. Such an act of spoliation, although it would unjustly interfere with property, would not cause any diminution in the consumption of food; the same quantity of agricultural produce would be required as before; the same area of land would therefore have to be cultivated. That land would consequently still require to be tilled which previously only paid a nominal rent; but if food was rendered cheaper, by making land rent free, this land, which before only paid a nominal rent, would be cultivated at a loss. No person, however, will continue to apply his labour and capital if he does not obtain in return the ordinary rate of profit, and, therefore, if food became cheaper, such land as we have just described would cease to be cultivated; but this cannot be, because the demand of the country for food is such that the produce which this land yields cannot be dispensed with. It is therefore manifest that food would not become cheaper, even if land were made rent free. Rent consequently is not an element in the cost of production. The value of food is, *cæteris paribus*, determined by the demand for it, because the demand for food regulates the margin of cultivation. Although the payment of rent does not influence the cost of producing food, yet the amount of rent paid indicates the position of the margin of cultivation, and the value of food must rise as this margin of cultivation descends.

Activity of  
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plied in  
the above.

It has already been remarked that Ricardo's theory implies activity of competition. In many countries, however, this activity of competition does not exist, but is interfered with by various customs. In succeeding chapters many of the various land-tenures which exist in different countries will be described, and we shall be thus led to consider whether the conclusions deduced from Ricardo's theory apply to those countries, such as India, where the tenure and the rent of land are influenced by various causes besides activity of competition.



## CHAPTER IV.

### ON WAGES.

**I**T has been impossible to expound the general laws of rent without mentioning the other two portions into which wealth is distributed; namely, wages and profits. But, as yet, we have not examined the laws which regulate wages and profits; it will therefore be convenient in the first place to devote a chapter to the subject of wages; we shall then consider profits; and when we have thus completed an examination of the laws concerning rent, wages and profits, we shall be in a position more clearly to understand some special but important questions concerning the distribution of wealth.

In previous chapters it has been shown that capital is the fund from which labour is remunerated, and it has been customary in most treatises on political economy to describe that portion of the capital of a country which is devoted to the payment of wages as the wages-fund. Within the last few years there has been a considerable amount of discussion on what is termed the wages-fund theory. The late Mr W. T. Thornton in his book *On Labour* denied the existence of a wages-fund, and Mr Thornton's remarks on the subject attracted the more attention because they induced Mr J. S. Mill to announce himself a convert to Mr Thornton's views in opposition to the opinions expressed in his 'Principles of Political Economy'.<sup>1</sup> We cannot help thinking however in spite of the high authority deservedly attributed to Mr Mill and Mr Thornton, that far too much importance has been

BOOK II.  
CH. IV.

*Wages*

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lation.*

<sup>1</sup> See *Essays and Dissertations* by J. S. Mill, vol. 4, p. 48, in a review of Thornton *On Labour*.

given to the controversy, and that Mr Thornton's objections mainly rest upon a misconception of the wages-fund theory. In order to give the reader an idea of the nature of the controversy we think we cannot do better than make a brief statement of Mr Thornton's argument and of the rejoinder it elicited from the late Professor Cairnes, who from his eminence as an economist may be justly regarded as the leading advocate of the wages-fund theory.

Mr Thornton contended<sup>1</sup> that there was really no such thing as a wages-fund, because no individual employer possessed a fund which must necessarily be expended in wages and in no other way, and he argued that the national wages-fund, if it existed at all, could only be made up of an aggregate of similar funds owned by capitalists. He maintained that so far from such funds existing in the hands of individual employers it was a mere mockery or childishness to suggest it. This line of criticism however betrays a fundamental misunderstanding of the wages-fund theory. No one ever imagined that there was a sum of money set apart for the payment of wages over which its owners had no real control, which must of necessity be devoted to paying wages and to nothing else. The theory as originally propounded by Mr Mill and as understood by Cairnes and others, is this:—the character of the national industries being given, a certain proportion of the capital seeking remunerative employment in these industries must be devoted to the payment of wages. 'Assuming,' says Prof. Cairnes<sup>2</sup>, 'a certain field for investment and the prospect of profit in this such as to attract a certain aggregate capital, and assuming the national industries to be of a certain kind, the proportion of this aggregate capital which shall be invested in wages is not a matter within the discretion of capitalists, always supposing they desire to obtain the largest practical return upon their outlay. To accomplish this, the instruments of production, labour, fixed capital and raw material, must be brought together in certain proportions—a condition which requires as I have shown,—the supply of labour being given,—a distribution of the aggregate capital in certain proportions

<sup>1</sup> *On Labour*, pp. 84, 85.

<sup>2</sup> *Leading Principles of Political Economy*, pp. 218, 219.

among those instruments. Supposing, now, capitalists to succeed in forcing down the rate of wages below the point at which having regard to the number of the labouring population, the amount which the fulfilment of this condition would assign to the payment of wages, was absorbed—either the capital thus withdrawn from the wages-fund must remain uninvested, and not invested in wages, it would take the form of fixed capital or raw material. But by hypothesis, the fixed capital and raw material were already in due proportion to the labour force and they would consequently now be in excess of it. A competition amongst capitalists for labour would consequently ensue; and what could this end in but a restoration to the wages-fund of the amount withdrawn from it?"

If as we believe to be the case, the view expressed in the foregoing passage is correct, it becomes obvious that wages in the aggregate depend upon a ratio between capital and population<sup>1</sup>. If the number of the labouring population remains stationary, wages cannot rise, unless the capital of the country is increased; but if, on the other hand, there is an increase in the number of the labouring population unaccompanied by any augmentation in the capital of the country, then wages must decline. The truths which have been just stated are in popular language expressed somewhat differently, for wages are commonly said to be regulated by supply and demand. We shall be able to show that this means the same thing;

Meaning  
of the  
expression  
"wages de-  
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and sup-  
ply."

<sup>1</sup> Mr Henry Sidgwick in his recently published work (1883), *Principles of Political Economy*, discusses at some length (Chap. viii., Book 2) the "wages-fund" theory, which he joins Thornton in condemning. He points out that in the present chapter sufficient distinction is not made between what he designates "wages-capital" and "non-wages-capital," and that general wages can only be affected by an increase or a decrease in the former. We do not pause here to consider whether "wages-capital" does not bear a strong resemblance to the wages-fund which has lately been the subject of so much criticism: but it may be said in reply to the objection just quoted that in stating broadly that wages depend upon the ratio between capital and population, we think it is sufficiently clear that—the nature of the national industries being given—every increase of capital means an increase in certain tolerably definite proportions both to "wages-capital" and to "non-wages-capital." At the end of Chap. iv., Book 3, of the present volume, in endeavouring to show the effect which may be exerted on the labourers by the conversion of circulating into fixed capital, the distinction which Mr Sidgwick points out between "wages-capital" and "non-wages-capital" has been fully recognised, although these expressions have not been used.

but 'supply and demand' is a hackneyed phrase not unfrequently employed without an accurate knowledge of its real import. Let us, in the first place, inquire what is the meaning of the expressions 'demand for labour' and 'supply of labour.' A demand for labour can only be caused by those who have the means of remunerating the labourer. But the remuneration which is intended to be given to the labourer is capital; therefore those only can exert a demand for labour who can apply capital for the remuneration of labour, and the greater the amount of capital to be applied in this manner, the greater will be the demand for labour; it therefore appears that the expression 'demand for labour' may be replaced by some such phrase as 'capital seeking to be devoted to the employment of labour.' Again, supply of labour may be estimated by the number of those who are anxious to labour; consequently an increase in the supply of labour is equivalent in its meaning to an increase in the number of the labouring population. When, therefore, we say that wages depend on the ratio between capital and population, we state the same principle as those who affirm that wages are regulated by demand and supply. This latter mode of expressing the principle is not incorrect, but the words demand and supply convey no definite meaning, whereas every law concerning wages must be deduced from the fundamental conception of a ratio between capital and population.

*Effect of  
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the condi-  
tion of the  
labouring  
classes.*

The law just stated goes no farther than to indicate the source from which wages are supplied; this law affirms that wages cannot generally rise or fall, unless the capital or population of the country is either increased or decreased. No question in economic science can be of more practical importance than the attempt to ascertain the causes which regulate the rate of wages. In no country has capital increased more rapidly than it has in England during recent years; the extension of our commerce and the increase of our national wealth have been quite unprecedented. Numberless statistics may be quoted, each of which would prove a wondrous development of our commerce and trade. In twelve years, from 1849 to 1861, our exports advanced from 60,000,000*l.* to the value of 120,000,000*l.*; they were in 1881 297,000,000*l.*; there

has been a corresponding increase in our imports; for they have steadily advanced until in the year 1881 they reached the value of 397,000,000*l*. The opinion is not unfrequently expressed that this remarkable growth of wealth has not been accompanied by any corresponding improvement in the condition of the labourers, and it has been contended by, amongst others, Mr George, in his *Poverty and Progress*, that there has been no improvement at all. When the previous edition of the present volume was published, England had lately (1873-4) passed through a period of exceptional trade activity, which had been accompanied by a marked rise in general prices. This rise in prices materially added to the cost of living of the working classes. Some idea may be formed of the influence thus exerted from the fact that owing to a rapid increase in the demand for coal, produced to a great extent by the additional quantity of coal required for the smelting of iron, coal advanced in price about 13*s*. a ton. It is estimated that the annual consumption of coal for household purposes in England is about 20,000,000 tons, and in consequence the rise in the price of coal entailed upon the general body of householders a charge of £13,000,000 a year, an amount equivalent to about one-half the interest of the national debt. There can be no doubt that the increase in the cost of living in this period of industrial activity was severely felt by various sections of the working classes. Sir T. Brassey has shown in his book entitled *Work and Wages* that taking the period between 1854 and 1869 the rise in wages had varied greatly in different employments. In some industries the rise had certainly not been sufficient to provide an adequate compensation for the increase in the cost of living to which reference has just been made. Taking, however, a review of a longer period, it can, we believe, be conclusively established that there has been a marked improvement in the general condition of the industrial classes since the adoption of free trade, and the extension of the railway system and the introduction of other improvements in the means of communication. At the time (1842) when Sir Robert Peel began his series of great financial reforms which ultimately led to the complete abolition of protection, there was scarcely a single article of foreign produce imported which was not heavily

BOOK II.  
CH. IV.*Has the  
increase of  
wealth  
improved  
their con-  
dition?*

taxed. At that time our tariff contained nearly 1,200 import duties: nearly the whole of these have been repealed, and at the present time almost the entire amount of the revenue levied on commodities either of home or foreign growth is obtained from six articles—spirits, wine, beer, tobacco, tea and coffee. The remission and reduction of duties, and the removal of all protective imposts upon foreign products have materially cheapened almost every article of general consumption except meat and dairy produce, and this reduction in price is particularly felt in unfavourable seasons. Formerly, when there was a falling off in the supply of home produce the restrictions that were imposed upon foreign importation often caused the necessities of life to advance to almost a famine price, and wide-spread misery resulted which is now happily never witnessed. Miss Martineau, in her admirable *History of the Thirty Years' Peace*, gives a most vivid description of the state of the country in 1841:—"The distress had now so deepened in the manufacturing districts as to render it clearly inevitable that many must die, and a multitude be lowered to a state of sickness and irritability from want of food....In Carlisle the Committee of Inquiry reported that a fourth of the population was in a state bordering on starvation—actually certain to die of famine unless relieved by extraordinary exertions....In Stockport more than half the master spinners had failed before the close of 1842: dwelling-houses to the number of 3,000 were shut up: and the occupiers of many hundreds were unable to pay rates at all. Five thousand persons were walking the streets in compulsory idleness."

It is almost impossible now to form a conception of the abject misery in which many of the agricultural labourers lived in those days. We can well remember when the ordinary wages of agricultural labourers in Wiltshire and Dorsetshire were not more than 7s. or 8s. a week. Some striking examples of the abject wretchedness of many of the rural population are to be found in Mr John Morley's *Life of Cobden*. "In Somersetshire the budget of a labourer, his wife and five children under ten years of age, was as follows:—Half a bushel of wheat cost four shillings; for grinding, baking and barm, sixpence; firing, sixpence; rent, eighteen pence; leaving out of the total earnings of

seven shillings a balance of sixpence to provide the family with clothing, potatoes, and all the other necessities and luxuries of human existence." In Devonshire the anti-corn-law lecturers found that the labourers "seldom saw meat or tasted milk; and that their chief food was a compost of ground barley and potatoes" (*Life of Cobden*, Vol. I., p. 156).

Although there may now be fluctuations from year to year in the condition of the industrial classes, nothing can more conclusively show the marked improvement which has been secured than the fact that although we have lately had to contend with a series of unfavourable seasons, and many branches of industry have been seriously depressed, yet there has been no approximation to any such wide-spread suffering as that which has been just described. Severe losses have within the seven years, from 1876 to 1883, had to be borne by those engaged in agriculture and other branches of trade, but it cannot be doubted that these losses have in numerous instances fallen more upon the employer than the employed; for far from there having been any scarcity of food, the price of all articles, except meat and dairy produce, has been exceptionally low; and this diminution in the cost of living has not only provided the labourers with a compensation in those cases where wages have been reduced, but has enabled a period of trade depression to be tided over without that wide-spread misery which had so often to be endured in the past.

Although we have thus endeavoured to show that there has been a decided advance, yet it cannot be denied that the general condition of the people admits of almost indefinite further improvement. There is still much poverty in our midst, and we shall in a subsequent chapter have occasion to lay special stress on the wretched dwellings in which so large a proportion of our population live. If therefore the mass of the people have not benefited to so large an extent as they might have done by the remarkable increase in wealth which has occurred in recent years, it becomes of the first importance to inquire what are the agencies which have acted prejudicially upon the general condition of the people.

Reference has been already made to the fact which was

BOOK II.  
CH. IV.

*Improvement effected in the condition of the poor by free importation of food and other produce.*

*A consideration of the reasons why the labouring population has not received a larger share of the recent increase of wealth.*

BOOK II.  
CH. IV.

*The influence of machinery in reducing the demand for labour ;*

*and of the growth of population in increasing its supply.*

established after most careful investigation by Sir T. Brassey, that the rise in wages has been so unequally distributed that in some trades wages have remained almost stationary. In these instances, in accordance with the principle already established, it may be concluded that an increase in the demand for labour must have been accompanied by a nearly corresponding increase in the supply. It is important to bear in mind that the supply of labour can be increased in two different ways. In the first place, the number of the labouring population may be augmented; secondly, the invention of new machines and other industrial improvements may, by economizing labour and rendering it more efficient, produce just the same effect in increasing its supply as if an addition were made to the number of the labouring population. It can be easily shown that both of these agencies have been in such active operation that they must have exerted a very considerable influence in increasing the supply of labour. With regard to the addition made to the actual number of the labouring population, it is scarcely necessary to say that the population of the country has been rapidly advancing during the period to which we are now referring. It is moreover particularly to be borne in mind that any increase in the demand for labour is sure, in the present social condition of the country, to call into activity an influence which must ultimately lead to an increase in the supply of labour. There is no fact more clearly demonstrated by the returns of the Registrar-General than that an increase in the number of marriages is the inevitable result of an advance in wages. In one of the quarterly reports of the Registrar-General the following passage appears, and many similar ones might be quoted: "The population engaged in the production of coal and iron are recovering from depression, and are again marrying and giving in marriage at their usual pace." In the Quarterly Report issued in October, 1873, it was stated that the prosperity of the country was proved by the high marriage-rate prevailing. Again, in the same report it was inferred from the marriage returns, that the prosperity which on the whole this country had enjoyed during the two previous years, had not been diffused amongst all sections of the community, but that, speaking generally,



it had been experienced principally in the coal and iron-mining districts; to a less degree amongst the population engaged in the cotton and woollen manufactures, and very little, if at all, in the purely agricultural parts. It therefore appears to be distinctly proved that directly the labourers obtain any advance in wages they call into operation an influence which sooner or later must exert a tendency again to reduce wages.

As we have before remarked, it is not solely by an increase of population that the supply of labour is increased. If some machine is invented, or some new method of carrying on industry is introduced, which enables 20 men to do as much work as before was done by 100 men, it is obvious that the supply of labour, so far as a particular trade is concerned, is augmented five-fold. Innumerable instances might be given in which labour has been thus economized to a most remarkable extent. In fact, the extraordinary increase in the production of wealth, which has characterized the last 30 years, would have been impossible if industry had been carried on with its old appliances. Again, quoting Sir T. Brassey, it appears that Mr Nasmyth, in his evidence before the Trades' Union Commission, stated that by the introduction into his workshops of self-acting tools, he was able to dispense with all that class of men who depended upon mere dexterity, and he reduced the number of men in his employment by fully one half.

Numerous instances may also be given of the extent to which employers are induced to economize labour by the introduction of improved industrial processes, when trade is unfavourably affected by any such circumstances as a deficiency of raw material or a scarcity of labour. Thus it is said: "In their gallant struggles in the difficult times following the war in America, our manufacturers developed the resources of machinery to a greater extent than had ever been attempted before, and they succeeded in making a considerable reduction in the amount of labour employed." In consequence of the extremely high wages which are prevalent in the United States, the Americans are far more interested than we are in England in applying machinery with the view of saving labour. Machinery is not only far more largely used in agriculture in the

*The manner in which the invention of labour-saving machinery acts on wages.*

United States than it is in England, but many of the improvements which we have introduced into agricultural implements have been obtained from America. We find it stated that, "In the United States the application of labour-saving machinery to agricultural operations is increasing every year. The number of patents issued for agricultural implements was in 1847, 43; in 1863, 390; in 1864, 563; in 1866, 1778; and in 1867, 1800." It can scarcely be doubted that even the comparatively small rise of 2s. or 3s. a week which has taken place in the wages of English agricultural labourers since the formation of agricultural unions, has already acted as a stimulus to many farmers to adopt various means of economizing labour, such as the employment of more machinery. If the supply of agricultural labour in this country should be diminished, as seems not improbable, by a large emigration of agricultural labourers, it cannot be doubted that the farmers would be prompted to make still greater efforts to economize labour; and thus the rise in wages which would naturally result from a diminution in the supply of labour would be to a considerable extent counteracted.

It is made sufficiently clear from such instances as those just enumerated, that increased production of wealth does not necessarily cause a proportionate increase in the demand for labour, but, on the contrary, it may very possibly happen that the discovery of some machine or some new industrial process may so economize the use of labour, as to cause the demand for labour to diminish at the very time when there is an increase in the production of wealth. It is important to bear this in mind, because we are too prone to conclude that every class in the community must immediately participate in the greater prosperity which is supposed necessarily to accompany an increased production of wealth. No doubt the community is ultimately benefited by the invention of improved machinery, but we must remember that the advantage thus secured is often accompanied by a severe loss to certain classes of labourers. The invention of new machinery, as we have seen in the case of Mr Nasmyth's works, may, by economizing labour, so much diminish the demand for labour in a particular trade as to throw many out of employment. As previously pointed out,

the invention of a new machine generally enables some industrial process to be mechanically performed which before needed manual skill. A class of labourers may thus find that they are suddenly deprived of the pecuniary advantage which they are able to secure from the possession of some particular skill. A serious loss may thus be inflicted on certain classes of workmen; they may have to seek some new employment in which the skill which they possess, acquired after a long and expensive training, is no longer of any use to them. As an example of the loss which workmen may thus suffer, we have seen that Mr Nasmyth was able, through the introduction of improved machinery, to dispense with the labour of all that class of men who depended upon mere dexterity, and to reduce the number of his men by one half. The men who were thus dismissed were of course those who were in receipt of the highest wages.

The considerations here adduced are, we believe, sufficient partly to account for the fact that the increase in the remuneration of labour has not been at all proportionate to the increase in national wealth, and that many workmen have scarcely participated at all in what is so constantly described as a remarkable growth of national prosperity. The comparatively small extent to which it appears the labourers have benefited by a great increase in the production of wealth is doubtless in part due to the fact that only a portion of the wealth annually saved or accumulated in England is invested in our own industry.

Our national capital may be regarded as divided into two portions, one of which is retained for the maintenance of home industry; the other portion is exported, being lent to foreign governments, or embarked in various foreign investments, such as railways, mines, irrigation works, etc. All that portion of our national capital which is thus exported exercises no immediate influence in raising the wages of our own labourers. It is for the time, so far as our own labour market is concerned, non-existent. Too little consideration is generally given to the vast amount of capital which is thus annually drawn away from England. It would be impossible to state the

BOOK II.  
CH. IV.

*The labourers who generally suffer most from the introduction of machinery are those who possess some special skill or dexterity.*

*The influence of the export of capital in reducing wages.*

exact amount of this drain, but some idea may be formed of its magnitude by considering the vast amounts which are annually lent by English capitalists to foreign governments. Almost every country in Europe spends more than its revenue, and the deficiency is to a considerable extent supplied by loans raised in England.

This excessive expenditure was caused by the example of the imperial government in France, for with the establishment of the second empire commenced that system of rivalry in military armaments which is mainly responsible for the great increase in the national debts of almost all European countries. It is perfectly well known that England has supplied a very considerable proportion of the loans which have been raised by Russia, Italy, Turkey, and Egypt. This being the case, we are able to form some idea of the extent to which, during the last 30 years, English capital has been exported, instead of being reproductively employed in home industry, when it is found that between the years 1848 and 1882 the national debt of Russia increased from 100,000,000*l.* to 640,000,000*l.*, and that of Italy from 30,000,000*l.* to 446,500,000*l.* Turkey raised her first foreign loan in 1854; since that time by repeatedly borrowing, chiefly in the London money market, she has accumulated a debt of 184,000,000*l.* Egypt raised her first foreign loan in 1862, and her debt in 1882 was 97,000,000<sup>1</sup>*l.* A great amount of English capital was also invested in the loans which were raised by America during the Civil War. Again, various industrial enterprises, such as railways, which have done so much to stimulate the production of wealth in England, have also exercised a powerful influence in causing capital to be exported from England. Thus in a few years no less a sum than 90,000,000*l.* of English capital was invested in Indian railways. We therefore think that the comparatively small increase which there has been in the remuneration of labour in this country, when compared with the increase in her aggregate wealth, may be partly accounted for by the fact that only a portion of the wealth possessed by England is invested as capital in her own

<sup>1</sup> These figures are obtained from the late Mr Dudley Baxter's work on National Debts, and from the *Statesman's Year Book*, 1883.

industry, and it is this portion which can alone produce any immediate effect in raising the wages of her labourers. Probably, however, the circumstance that has had the greatest effect in retarding an increase in the remuneration of labour is the fact that hitherto whenever there is an advance in wages consequent on an increased demand for labour, two powerful influences have been brought into operation again to reduce wages; for it has been shown that additional wages not only stimulate an increase of population, but also cause the adoption of various means for economizing labour.

As almost every question concerning wages is intimately connected with the laws of population, it will be desirable here to make some reference to these laws, and to the distinguished economist by whom they were first expounded. Malthus enunciated these laws in his celebrated *Essay on Population*, published in 1798, a work which gave a new aspect to the speculations of political economists. In this essay the restraints upon population are classified as positive and preventive. Positive checks on population are, according to Malthus, causes over which an individual has no direct control, such as the mortality arising from famine, disease, or the ravages of war. In all civilised countries a certain number of people are restrained from early marriages by feelings of prudence, and then the population is kept down by what Malthus called a preventive check. Malthus examines the social condition of each country, with the view of ascertaining whether preventive or positive checks are the more efficient in restraining their population. The description which from this point of view he gives of the most important countries may be still read with great interest. His entire essay is most suggestive, and the time which has elapsed since its first appearance at the commencement of the present century, has detracted little from its value or importance.

It is quite evident that population must be restrained by some check, for if all married when they arrived at maturity, this earth would not merely fail to feed, but would scarcely even offer standing-room for the countless millions that would be born. This may be exemplified by an illustration from natural history: 'the elephant is reckoned the slowest breeder of all known animals, and I

BOOK II.  
CH. IV.

*The three circumstances to which we attribute the small advance in wages are:*

1. *The increase of population.*
2. *The extended use of labour-saving machinery.*
3. *The export of capital.*

*Malthus's Essay on Population.*

*Some checks to population invariably exist.*

have taken some pains to estimate its probable minimum rate of increase. It will be under the mark to assume that it breeds when thirty years old, and goes on breeding until ninety years old, bringing forth three pairs of young in this interval. If this be so, at the end of the fifth century there would be alive fifteen million elephants, descended from the first pair<sup>1</sup>. It is stated in the late Prof. Cairnes's *Essays* that the population of Ireland more than doubled itself in the thirty-eight years between 1767 and 1805<sup>2</sup>. The population of a country, under favourable circumstances, has been known to double in a period of twenty years, and so great is the power of man's multiplication, that the world might soon be far more densely populated than it is now, by the progeny of a single pair, if none of these positive or preventive checks which act in various countries were brought into operation. It is the opinion of Malthus, that throughout the East, and formerly in most European countries, the population has been restrained by such positive checks as famines, destructive wars, negligent rearing of children, and the unskilful treatment of terrible diseases, not unfrequently caused by an insufficiency of food, which often appeared in the form of periodic plagues. It is estimated that the plague known as the Black Death, which swept over Europe in 1347-8, destroyed in England alone the lives of more than one half of the population. In almost every country these positive checks still operate, but with much less powerful effect. In England, for instance, there is a great mortality amongst the children of the poor, which is no doubt chiefly due to the unfavourable circumstances in which they live. In many districts one half of the children belonging to the poorer classes die before they are five years old. In some European countries, population is restrained by law. In Norway, no couple is allowed to marry until it can be proved that the man and wife possess jointly a certain amount of money. In other countries, prudential feelings, which almost amount to a general custom, prevent early marriages, and in this manner restrain population. In some of the Swiss cantons, a man

<sup>1</sup> Darwin, *Origin of Species*.

<sup>2</sup> *Political Essays*, by Prof. J. E. Cairnes.

rarely marries before he is thirty, nor does a woman marry before she is five-and-twenty.

In some exceptional cases the condition of the labouring classes may for a time suffer no deterioration, although neither positive nor preventive checks on population are in very active operation. In a new colony with a healthy climate, and a great breadth of fertile and unoccupied land, population may for a time continue to expand with scarcely any let or hindrance; but in a country like England, if the population were not restrained by some checks, the labour-market would soon become so redundant that the labourers would be reduced to abject poverty and misery. The middle and upper classes display, as a general rule, considerable prudence: they do not often marry unless they have a reasonable prospect of being able to bring up a family in a state of social comfort, similar to that to which they themselves have been accustomed. But the labourers, who form the majority of the population, are but slightly influenced by such cautious foresight. Even a trifling temporary improvement in their material prosperity acts as a powerful impulse to induce them to marry; for it is a demonstrated statistical fact, that the number of marriages invariably increases with any temporary improvement in trade. As previously remarked, the reports of the Registrar-General prove that if any particular branch of industry becomes prosperous, there is immediately an increase in the number of marriages among those who are employed in it. In the case of the labouring classes, prudence is in a great degree replaced by other restraints upon population, which indicate a state of society deeply to be deplored. Of the children belonging to the upper and middle classes, only twenty per cent. die before the age of five. This proportion is more than doubled in the case of children belonging to the labouring classes. This great mortality amongst poor children is caused by neglect, by want of proper food, and by unwholesome dwellings; sometimes the parents are too poor to rear their children properly, but too frequently the premature death of children is due to drunkenness and other excesses of which their parents are guilty. If, therefore, the children of the poor had during the last ten years been treated with proper care, there would be in this country,

*Prudential checks  
to population*

*are not  
sufficiently  
strong in  
the labouring  
classes.*

at the present time, above a million more children than are now living. In this manner the supply of labour may be vastly increased. And yet, if any faith is placed in the progressive improvement of the people, it must be believed that the check upon population just noticed, so replete with misery, and associated with so much human depravity, will be gradually weakened. But if this be so, then it becomes of paramount importance that the labouring classes should, with regard to marriage, exhibit prudence; for if increased prudence is not exercised, when these positive checks upon population are removed, the labour-market will be so over-supplied, that the material condition of the labourer must rapidly deteriorate.

*Emigration as a check to population.*

One check upon population, which has not yet been referred to, has relieved this country of much surplus labour and has been peculiarly beneficial in all its other consequences. For many years past, there has been a large emigration from the United Kingdom to the United States, and to our various colonies. Between the years 1848 and 1864 the total number of emigrants from the United Kingdom was 3,863,000: and although of late years there have been fluctuations in the amount of emigration, at present there appears to be no likelihood of a permanent reduction in its average amount: in 1881 no fewer than 243,000 emigrants of British origin left this country. Had there not been this emigration, all these persons would have remained at home; the supply of labour would thus have been greatly increased and a depressing influence would have been brought to bear upon wages. But this consideration suggests only a very small portion of the advantage which has resulted from emigration. Our emigrants leave an over-supplied labour-market and settle in countries where great natural resources are undeveloped, and where vast tracts of fertile land are untilled, because no adequate supply of labour has been forthcoming. The returns to labour applied under such favourable conditions are of course very great: wealth is quickly created, and tracts of land thus peopled by our emigrants rapidly become prosperous commercial communities. Many of the nations which have been, as it were, created by our emigration, afford the mother-country



a supply of cheap food, and thus confer upon her a most important benefit. This naturally leads us to consider other causes which produce a deterioration in the condition of the poor, and which also impede prosperity, when, in a thickly peopled country like our own, population is not either restrained, or else relieved by some such agency as emigration.

It has been frequently stated that agricultural produce must rise in price if it becomes necessary to resort to less productive land in order to obtain food for an increasing population. Rent, as already demonstrated, does not form a part of the cost of producing food, for the price of food is regulated by the expense of obtaining produce from land which is so poor that it can only pay a nominal rent. If, therefore, the population of this country rapidly advanced, and the demand for food became so great as to render the resort to less productive land necessary, then food would become much more expensive. It must be always borne in mind that food must rise in price as population increases, unless supplies of cheap food are imported from other countries, or agricultural improvements render our own soil more productive. If, therefore, emigration does not relieve the labour-market of its surplus population, the condition of the labourer will be injuriously affected in two distinct ways: in the first place, his money-wages will diminish, owing to the overcrowding of the labour-market; and secondly, the necessities of life will rise in value, because there will be a greater demand for food. If our constantly-increasing population had to be supplied with food entirely from our own soil, it is doubtful whether a sufficient quantity of even the necessities of life could be obtained; but if there were not an absolute dearth of provisions, food would under such circumstances enormously rise in value, and the greatest distress amongst the labouring classes would be sure to ensue.

The remarks just made upon the tendency of food to become dearer as population advances, indicate another most beneficial influence resulting from emigration; for not only is the home labour-market relieved by emigration, but it also promotes the development of countries to which England must chiefly look for supplies of cheap

*The tendency of food to become dearer as population advances, injures the labourer.*

*This evil is greatly obviated by emigration.*

food. Emigration, therefore, is not only a check upon population, but it is in every respect most beneficial in its results; it causes wages to rise, or rather prevents their fall in those countries from which emigration takes place; and by providing supplies of cheap food, it indirectly confers upon the labouring classes another most important advantage. It must however be remembered that emigration will, after a time, cease to be a remedy for overpopulation. Some of the facts already mentioned show that population has, under favourable conditions, such a high rate of geometrical increase, that our colonies might, before a long period has elapsed, become as thickly peopled as the mother-country. Emigration would then no longer afford relief.

It has now been pointed out that the average rate of wages received throughout the country depends upon a ratio between capital and the number of the labouring population. The capacity of increase is so great, that if some powerful checks are not placed upon population, the condition of the labourer must rapidly deteriorate; for the greatest accumulation of capital that has ever occurred would entirely fail to create a demand for labour in any way proportionate to the supply of labour which would be forthcoming, if man's power of multiplying his species were not restrained by some very efficient causes. When indicating the various ways in which population may be restrained, particular importance has been attributed to emigration, in the case of a thickly peopled country such as England. The future progress of such a country depends to a great extent upon her capacity to obtain supplies of cheap food; it has been shown that emigration not only relieves her from the burden of a surplus population, but also powerfully promotes the development of those new countries from which cheap food is mainly imported.

*Variation  
of wages in  
different  
employ-  
ments.*

Many important questions connected with wages still remain to be explained; such, for instance, as the different rates of remuneration received in different employments. For not only are higher wages paid in some trades than in others, but it may be frequently observed that the wages of one particular class of workmen may rise or fall to a very considerable extent without any

variation at the same time taking place in the wages of other employments. Special circumstances are connected with various employments, which must have the effect of producing permanent variations in the wages paid in different trades. Adam Smith divides the causes which produce different rates of wages into the five following classes:

1st. The agreeableness or disagreeableness of the employments themselves.

2nd. The easiness and cheapness or the difficulty and expense of learning them.

3rd. The constancy or inconstancy of employment in them.

4th. The small or great trust which must be reposed in those who exercise them.

5th. The probability or improbability of success in them.

Examples of the effects which may be attributed to each of these different kinds of causes will readily suggest themselves. A collier proverbially earns higher wages than even many skilled workmen in his own district. A collier, not working so many hours in a day, earns more wages than a carpenter. But coal mining is not only a very laborious, but a very dangerous occupation. The work is dirty: a man has to labour in the dark, and often in very bad air. When all these circumstances are considered, it is easy to understand that men would not work in coal mines unless they were induced to do so by very high wages.

The second circumstance mentioned by Adam Smith probably produces a greater influence on wages. If a trade is difficult to learn, an apprenticeship fee has often to be paid as a premium for the necessary instruction. This, in the first place, greatly limits the number of those who can be brought up to the trade, for comparatively few labourers, even if they were inclined to do so, have the means to pay such a fee for any of their children: but the apprenticeship premium represents only a very small portion of the cost a parent must bear if he brings a child up to a skilled trade. An apprentice not unfrequently works for four or five years without receiving any wages at all, and therefore such a youth, until perhaps he is twenty

BOOK II.  
CH. IV.

*Causes assigned by Adam Smith.*

*Agreeableness of the employment.*

*Difficulty of learning it.*

BOOK II.  
CH. IV.

years of age, must be kept by his parents. If, however, he had entered upon some ordinary, unskilled employment, he would have been receiving increasing wages from the time he first began to work. Every skilled workman has had a certain amount of capital spent in gaining the skill his trade requires, and this capital would of course not be spent unless an ample future return was given to it in the form of higher wages. The difference in the wages of skilled and unskilled labour represents a large return to the capital which has been spent in the skilled workman's education. This must be so, whilst so few of our workmen have either the foresight or the means to bring their children up to some skilled employment. Skilled workmen therefore possess, as it were, the advantages of a monopoly. In some skilled employments a monopoly is created by nature, for the skill needed is so great that few have the natural capacity ever to acquire it. Thus, as it has been previously mentioned, there is a very limited number, amongst all the watchmakers in England, who can ever acquire that delicate accuracy of workmanship which is needed in the construction of a chronometer. Such workmen, therefore, are endowed with a natural monopoly, and they can, within certain limits, obtain almost as high wages as they choose to demand.

*Constancy  
of the em-  
ployment.*

The third circumstance mentioned by Adam Smith—namely, the constancy or inconstancy of employment—he very aptly exemplifies by the case of builders' operatives. 'In the greater part of manufactures a journeyman may be pretty sure of employment almost every day in the year that he is able to work. A mason or bricklayer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable, in consequence, to be frequently without any work. What he earns, therefore, while he is employed, must not only maintain him when he is idle, but make him some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion. When the computed earnings of the greater part of manufacturing operatives, accordingly, are nearly upon a level with the day wages of common la-

bourers, those of masons and bricklayers are generally from one half more to double those wages.'

With regard to the fourth cause mentioned by Adam Smith, it may be remarked that, when a great amount of trust is requisite to be reposed in a labourer, his wages are of course higher. A labourer, when he has demonstrated that he possesses such qualities as will cause his employer to place confidence in him, can claim higher wages, and the employer who gives these higher wages is abundantly recompensed. A jeweller has to intrust valuable property to his workmen, and if confidence could not be reposed in these workmen, their employer would be at a considerable outlay in order to have them constantly watched, and he would be likewise subjected to various other losses and annoyances. A considerable portion of the cost of any commodity does not arise from the labour employed in actually producing it, but is caused by the expense of superintending and watching this labour. An employer might dispense with such an outlay if he felt assured that his workmen could be trusted; and such an employer would readily devote a part of the expense thus saved to raise the wages of those he employed.

The following is the fifth and last cause enumerated by Adam Smith. 'The wages of labour in different employments vary according to the probability or improbability of success in them.' The circumstance but very slightly affects those who are usually considered to belong to the wage-receiving class. If a youth is brought up as a shoemaker, it is almost certain that he will acquire the art of shoemaking. In some of the liberal professions, however, such as the law and medicine, the large remuneration received by a few may perhaps be considered to be partly counterbalanced by the number of those who fail to earn a competency in any degree proportioned to the expense which their professional education has involved. But we think Adam Smith, even in the case of the liberal professions, has attributed too much influence to the cause above mentioned. The uncertainty of success in such a profession as the bar is not due to a difficulty in ascertaining beforehand whether an individual possesses those talents which will fit him for such a profession. Success is uncertain, because it depends on extraneous conditions

BOOK II.  
CH. IV.

*Amount of  
trust re-  
posed in the  
labourers.*

*Proba-  
bility of  
success.*

*Effect of  
this in the  
liberal pro-  
fessions.*

which an individual cannot control. A barrister may have brilliant abilities, but unless he happens to be acquainted with solicitors he may wait for years without a brief. In many professions, too, although the fees paid appear to be high, yet the average earnings are extremely small. Moreover, in the choice of a profession other motives act more powerfully than a prospect of gain: a profession gives position in society, and men of property often join one of the learned professions in order to give them an occupation: hence the competition for employment is artificially increased. When therefore any question is considered relating to wages, or to the profits of trade, a distinction ought to be made between the liberal professions and other occupations which are resorted to almost entirely for the purpose of gain. A clergyman who is only obtaining 100*l.* a year, may feel assured that if he were engaged in some other occupation his income would be far larger; but such a man may be prompted by a high sense of duty to enter the Church, or he may be influenced by the social position he obtains from being in it, and therefore he chooses his profession independently of pecuniary considerations. With regard to trade, no such feelings can exercise any practical influence; no one can feel that it is his duty to be a grocer rather than a baker; a man usually chooses the trade or employment to which he has been brought up, or the one in which he thinks he can earn the most money with the most pleasure, or rather the least inconvenience to himself.

*Other circumstances produce a variation of wages.*

The five classes of circumstances to which Adam Smith attributes the different wages paid in different employments have now been enumerated. Considerable influence is no doubt produced by each of these classes of circumstances; but wages are perhaps more affected by other causes which are much less frequently considered. For instance, a fact with regard to wages must have been noticed by even the most casual observer, that not only do the wages of different employments vary, but there are great variations in the wages obtained in the same employment in different parts of the country; it may moreover be remarked that variations of this kind are particularly striking with regard to many unskilled employments. During the winter months an ordinary agricultural

labourer in Yorkshire earns sixteen or seventeen shillings a week. The wages of a Wiltshire or Dorsetshire labourer doing the same kind of work, and working a similar number of hours, are only eleven or twelve shillings a week. This great difference in wages is not counterbalanced by other considerations; living is not more expensive in Yorkshire than in Dorsetshire, and the Dorsetshire labourer does not enjoy any particular advantages or privileges which are denied to the Yorkshire labourer. This inequality in wages is not merely a temporary difference, and the question naturally arises, How can such a great variation in the wages of the same employment be permanently preserved? Why does not the Dorsetshire labourer remove to Yorkshire, where he would be able to obtain forty per cent. more for his labour? The obstacles, however, to such a migration are too formidable to be overcome even by such a premium as is offered by this difference in wages. In the first place, a Dorsetshire labourer of the old school can seldom either read or write; he therefore has little or no information with regard to the wages paid in other districts. His ignorance magnifies the difficulties of removing to a distant part of the country, and makes him disinclined to leave the locality to which he has been accustomed. Again, if he has a family, he is far too poor to pay the expense of conveying them to a comparatively distant place: for it is a fact that in those counties where wages are lowest, an agricultural labourer has rarely saved even a few shillings.

The combined influence of the causes just enumerated prevents labourers readily migrating from one district to another in order to avail themselves of the advantages which they would secure from a greater demand for their labour. A more accurate conception is therefore obtained of many of the phenomena connected with wages, if a country like our own is considered to be composed, so far as certain classes of labourers are concerned, of distinct provinces between which there is little migration of labour and in which within certain limits different rates of wages prevail, or, in other words, different relations exist between population and capital, or between the demand for, and the supply of, labour. It is important to bear this in mind when we practically apply those general laws of wages

BOOK II.  
CH. IV.

*These facts are consistent with the principles stated above.*

*Means of improving the labourer's condition.*

*The difference between rates of wages in different districts tends to diminish.*

described at the commencement of this chapter. But let it not for one moment be supposed that these laws are less true because it is necessary to place some limitation upon their general application. The wages of the Dorsetshire labourers depend as absolutely on a ratio between capital and population as if these labourers readily passed from one part of the country to another; but their wages are far more affected by an increase or decrease of capital and population in their own district than by any change in the capital or population of the whole country. It is also evident that if Dorsetshire labourers will not go to Yorkshire, the wages of the Yorkshire labourers are not affected by an increase in the population of Dorsetshire. But wages in Yorkshire will inevitably be affected if there is any alteration in the amount of the capital invested in the district, or if there is any increase or decrease in the number of those who are seeking employment in the locality. If therefore the wages in any particular district are too low, there is only one way in which they can possibly be raised. Mere sympathy can do little in advancing the wages of the Dorsetshire labourer: his condition can only be improved either by employing more capital in agriculture in Dorsetshire, or by restricting the supply of labour. This may be effected either by foreign emigration, or by some of the able-bodied labourers removing from these ill-paid districts to localities where wages are higher.

Every year various causes are in operation which act with increasing effect to lessen these inequalities in wages which we have just been noticing. A few years since the greatest differences in the price of commodities prevailed in different parts of the country. Communication was so difficult, that some article of food which was often an expensive luxury in one part of the country could be had in abundance in another part. Poultry was four times as dear in London as in many country districts. Railways have changed all this, and now provisions are almost as cheap in London as they are at a distant place like Aberdeen; and as people gradually avail themselves of the easy means of communication between one district and another, wages in the same employment will throughout the country approximate to one uniform rate. The more intelligent



of our workmen freely leave the place in which they are employed if they think that by doing so their prospects are improved. As our agricultural labourers gradually become more intelligent, they will show an equal readiness to avail themselves of any advantage offered to them by a more favourable state of the labour-market in some other locality.

Although it has been stated that a higher average rate of wages prevails in Yorkshire than in Dorsetshire, yet the causes which produce this difference in wages have not yet been fully explained. We must inquire why does the capital invested in agriculture in Yorkshire bear a different relation to the number of the agricultural population from that which it bears in Dorsetshire? Yorkshire, unlike Dorsetshire, is not merely an agricultural country: it has many most thriving manufacturing industries; therefore in the former country a great many other employments besides agriculture compete for the labour of the agricultural population. It is true that an agricultural labourer is not suddenly converted into a cloth-weaver. Such a transition rarely takes place, but if there is a manufactory close at hand, many of the children of the agricultural labourers will be employed in it. There is always connected with an active manufacturing industry much subsidiary work which can be performed by an ordinary labourer. Thus in the Dowlais iron works in South Wales there are no less than 500 horses, which of course require a great number of men to superintend them. Such work, consequently, draws off many labourers from agriculture, and thus the higher wages paid to agricultural labourers in the manufacturing districts may be entirely explained by those general laws which regulate all wages: for in this, as in every other case, it is a question between population and capital; the agricultural population of the manufacturing districts being diminished by the frequent employment of the labourers themselves in other work, and by the engagement of their children in the manufactories.

Before concluding this chapter it will be important to explain the influence which is exerted on wages by what is called good or bad trade. In England, where capital is accumulated with such rapidity, the amount of capital

*Causes which make wages higher in Yorkshire than in Dorsetshire.*

*Influence exerted on wages by good trade;*

*by attract-  
ing capital  
to parti-  
cular em-  
ployments.*

invested in any particular industry could be immediately increased beyond almost any assignable limits. Suppose the prospects of the cotton trade were so good, that the Lancashire manufacturers thought they could profitably invest an additional 10,000,000*l.* in their trade. Many of them would withdraw capital for this purpose from other investments, and there would be no difficulty whatever in making up the whole 10,000,000*l.* required by obtaining advances from bankers and others on the credit of the individual manufacturers. It would not, however, be possible with equal rapidity to make such an increase in the labour employed in any particular industry. One who is accustomed to other work cannot without considerable practice acquire the skill of a cotton-operative. Many of the processes of cotton-spinning could not probably be learnt by an adult, for their manipulation requires fingers trained from childhood. New capital in various forms, such as larger quantities of raw material, may be at once brought into any particular industry; but when those who have been accustomed to the industry are once fully employed, an increased supply of labour can then be only gradually obtained. Hence it appears that the labourers of each separate trade possess, so far as the supply of labour is concerned, a monopoly for a limited period. This will explain the benefit which is observed to result to any class of labourers when their special trade happens to be prosperous. Reverting for an illustration to the manufacture of cotton, let us consider what takes place when this trade is unusually active, as it was during the years 1872—73. Throughout this period cotton manufacturers realized such large profits, that they were anxious to spin as much yarn and weave as much cloth as they possibly could. They therefore had every inducement to apply to their business the greatest possible amount of capital that was practicable; so far as depended upon the supply of capital, the cotton trade might have been at once indefinitely extended; but new mills and machinery require time for their erection. It was no use therefore for a manufacturer to buy more raw material, or employ more labour than was suited to the mills and machinery at his command. But every manufacturer during such times does as much trade as possible; he therefore com-

petes for labour; every cotton operative is thus certain to be fully employed at very high wages, and consequently the prosperity of any particular branch of trade confers a great temporary benefit upon the labourers who are engaged in it. We say temporary benefit, because if the good trade continued, and wages remained exceptionally high, an additional supply of labour would at length be forthcoming. People would be gradually attracted from other worse-paid employments, because the high wages would offer them a temptation to learn the trade which was exceptionally prosperous. Every parent in the district would have a great inducement to bring his children up to this trade; and this accession of juvenile labour would be the chief source from which would be gradually supplied an additional quantity of labour, sufficient to meet the increased demands of the trade. If the skill which any industry requires is particularly great, the labourers of the trade possess a more complete monopoly, because under such circumstances it would be more difficult and take a longer time to import labour from other employments. The labourers fully understand the advantages of a trade monopoly, and they constantly strive to maintain such a monopoly by various restrictions as to the number of apprentices admitted into any trade. In order to effect these purposes, Trades' Unions have been established. It will be better, however, to defer our remarks upon these societies, and the various other means which have been often resorted to, in order to secure higher wages, until the subject of profits has been discussed; for a complete investigation will then have been made into the general laws which regulate the distribution of wealth into the three primary divisions of rent, wages, and profits.

*The benefit thus conferred on the labourers is temporary.*

## CHAPTER V.

### PROFITS.

BOOK II.  
CH. V.

*Profits are  
the remun-  
eration  
paid to the  
capitalist,*

**R**ENT, wages, and profits, the three portions into which wealth is distributed, denote the remuneration received by different classes of individuals for the assistance which they render towards the production of wealth. Those who have appropriated land receive a remuneration in the form of rent when they permit others to use the land which has been so appropriated. Those who apply their labour to the production of wealth receive wages as a remuneration for this physical exertion; and profits denote the remuneration which those receive who supply the remaining requisite of production, namely capital. As capital is the result of saving, the owner of capital exercises forbearance when he saves his wealth instead of spending it; profits therefore are the reward of abstinence, in the same manner that wages are the reward of physical exertion. If an individual invests a certain sum in any productive employment, his profits will consist of the entire surplus which remains after the capital has been replaced. Suppose an agriculturist cultivates his farm with a capital of 5,000*l.*; this capital will be composed of many different elements, such as stock, implements, and a fund from which he is able to advance the wages of his labourers. The profits of the farmer will consist of the surplus which remains, when from the whole produce of the farm sufficient has been deducted to replace the original 5,000*l.*, the value of the capital which the farmer possesses. But in such a case these profits of the farmer will not simply represent a return to his capital, or, in popular language, interest for his money; the farmer has probably given his own time and labour in watching those whom he employs, and in superintending the various operations of his farm: he has

of course to be remunerated for his time and trouble, and therefore part of his profits represents the wages properly due to this labour of superintendence. Again, every business is attended with more or less risk. If a man invests his capital in the funds, he may regard it as perfectly secure, but capital invested in business can never be made equally secure against loss. There may be revulsions in trade, or bad debts; and property invested in any commercial undertaking is subject to depredations of the dishonest, and in some countries to the rapine of internal war. A capitalist therefore must receive some compensation for the increased risk of loss which is incurred when his capital is invested in trade; a portion of his aggregate profits represents this compensation. The profits therefore which a man obtains from his business are composed of the three following elements.

1st. A reward for saving, or, more properly, a reward for abstinence.

2nd. A compensation for the risk of loss.

3rd. Wages for the labour of superintendence.

It is very easy to ascertain the portion of profits which ought in any particular instance to be allotted as the reward of saving. In every commercial country there are investments, the security of which is regarded as perfect. In our own country, for instance, the funds, and stock guaranteed by our own Government, are securities which are regarded as free from risk. The interest which is obtained from capital invested in these securities may be considered as entirely the remuneration for saving. He who so invests his capital cannot receive any remuneration for risk, when there is none, and the investment entails no labour upon him. The interest which is obtained from such securities is termed the current rate of interest; and therefore the first element of which profits are composed may be always estimated in amount by the current rate of interest. If the current rate of interest is four per cent., a capital of 5,000*l.* would secure a profit of 200*l.* without the slightest risk or trouble. A person therefore who has 5,000*l.* invested in his business might consider that 200*l.* of his annual profits represents interest on capital, or, in other words, is the remuneration which he receives for his abstinence.

*and may  
be divided  
into three  
parts.*

*Reward for  
saving.*

BOOK II.  
CH. V.*Compensation for risk,*

In many cases it is more difficult to estimate the amount of the second of the three elements of which profits are composed—namely, remuneration for risk. Sometimes, however, a man of business pays to others a certain portion of his profits to compensate him for any particular loss or risk to which his business may be exposed. Such a payment is termed an insurance. In this country it is almost an universal practice to insure against fire. Merchants insure their vessels against shipwreck; farmers not infrequently insure their crops against the loss which may be incurred by severe hailstorms; farmers may also now insure their live-stock. The sum which is spent upon any of these insurances has of course to be deducted from the gross profits; but such insurances cannot cover the whole risk to which an individual's capital is exposed when invested in business. Thus the whole of a farmer's profits may be destroyed by unpropitious weather. For a succession of years between 1875 and 1882, crops were so bad owing to unpropitious seasons that many farmers obtained no profit whatever; but although it is very difficult to apportion the exact amount of profits which might, in any particular business, be considered as a fair remuneration for risk of loss, yet it can readily be ascertained that some businesses and trades are subject to far greater risk than others; and therefore we should expect to find that the profits would be greatest in those trades which are most hazardous, so that the increased risk may be thus compensated. If an individual embarks his capital in some undertaking which he does not himself superintend, but which returns him a large interest, the excess of the interest so obtained above the current rate of interest represents the increased risk. Shares can generally be purchased in English copper mines which pay an interest of 10 per cent., but it is impossible to foresee how long a copper mine will continue productive; every indication may be most promising, but a slight alteration in the strata may at once destroy the value of the lode. If, therefore, an individual obtains ten per cent. from a copper mine when the current rate of interest is only four per cent., six per cent. may be regarded as a return for the hazardous nature of the speculation.

*and remuneration,*

The amount of the remaining element of which profits

are composed—namely, the remuneration for the labour of superintendence—may be estimated by deducting from the gross profits the amount due to the first and second elements of profit which have just been mentioned. The remuneration, which is obtained for this labour of superintendence, is influenced by many of the same causes which affect the wages of ordinary labour. Some employments require for their superintendence greater skill and greater patience than others; some are more disagreeable to superintend than others. If this be so, then the remuneration of the labour of superintendence will be greater in one case than in the other. The caprice of society often gives to some employments a social dignity, which is refused to others; and this consideration enables us to explain the proverbially low profits obtained in this country from farming compared with the profits of many retail trades. Society now considers that a man of high family may with propriety occupy himself with farming; agricultural pursuits are extremely healthy and thoroughly congenial to English tastes. It is not usually supposed that a person requires a tedious apprenticeship, or an expensive special education, to qualify himself to be a farmer. Many men therefore consider that they are almost sufficiently remunerated for the labour of superintending the cultivation of their farm by the health and pleasure derived from the occupation. They therefore do not expect to receive any considerable return for the labour of superintendence. The gross profits of farming are consequently smaller than the profits of many retail trades. A grocer not only expects to receive as much interest upon the capital invested in his business as does the farmer, but, in addition to this, must also receive an adequate remuneration for superintending the details of his business. A man is induced to carry on the grocery trade, by no other object than to obtain profit from it; he is not attracted to the occupation by the prospect of securing health and pleasure.

Interest on capital, insurance for risk, and remuneration for labour of superintendence, are therefore the three elements of which profits are composed. The first, interest on capital, is represented by the current rate of interest, and therefore may be regarded as a constant quantity for

*Interest on  
capital re-  
mains con-  
stant at the  
same time  
and place.*

BOOK II.  
CH. V.

all occupations at the same time, and in the same country. We say at the same time, and in the same country, because not only is the current rate of interest much higher in one age than in another, but very different rates of interest prevail at the same time in different countries. Thus the current rate of interest in England is now about 3 per cent., whereas, two centuries since, it was at least eight per cent.; although at the present time the current rate of interest is only 3 per cent. in England, it is about eight per cent. in Australia. The cause which produces these variations in the rate of interest will be explained in a future chapter.

*Hence profits vary when compensation for risk and wages of superintendence vary.*

In considering the profits of different trades, the amount to be allotted to interest on capital is the same for all trades in the same country; the different rates of profit which prevail in different occupations must, therefore, be attributed to variations in the remaining components of profits, namely, insurance for risk, and remuneration for labour of superintendence. If larger profits are obtained in one trade than in another, we must be sure that, in the one trade, capital is subject to greater risk than in the other, or the labour of superintending the one trade requires a higher remuneration than in the case of the other; if, therefore, in any trade a permanently higher rate of profit prevails than in other trades, it must be due either to the operation of these causes, acting singly, or combined. Agriculture has been quoted as an example, to show that the profits in a particular branch of industry may be extremely small, because various circumstances connected with the trade cause a slight remuneration to be given to the labour of superintendence. Consequently, the various trades and occupations of which the industry of the country is composed, will each have a scale of profits peculiar to itself, the appropriate amount of profits which belong to each trade being determined by various causes, just in the same way as the wages of different employments are regulated by particular circumstances, described in the last chapter. Such an assertion may, at first sight, seem to contradict a principle of political economy, perhaps more frequently quoted than any other; namely, that the profits of different trades have a constant tendency to become equalised. The principle, when pro-

*Each trade has a certain scale of profit,*



perly understood, is true; the apparent contradiction admits of ready explanation. When the profits realised in any business are just sufficient to give an adequate compensation for interest on capital, for risk against loss, and for labour of superintendence, then it is said that the natural rate of profit is obtained; and hence it would appear that each separate trade has a natural rate of profit peculiar to itself, because this rate of profit must give a proper remuneration for the three elements of which profits are composed; and two of these, namely, the insurance against risk, and the wages of superintendence, vary in different industrial occupations. If the current rate of interest permanently rises, an effect is produced upon the profits of all businesses, and the natural rate of profit in every business rises. But if any circumstances should occur which should increase the chance of loss in a particular trade, without affecting others, then the natural rate of profit belonging to this particular business would be increased. The natural profits of farming are low, because English tastes are such as to make farming a pleasurable occupation. If the definition which has been given to the term 'natural profits' is borne in mind, there will be no difficulty in explaining what is meant by the popular expression, that the profits in different trades have a tendency to become equalised.

The circumstances of various trades are intrinsically different—one business, as we have before remarked, may be a more hazardous speculation than another, and the trader who incurs this greater risk must be compensated by permanently higher profits; these higher profits, therefore, denote a real compensation, not a casual or temporary disturbance, and there is no tendency whatever to abolish the compensation by equalising the profits of the more hazardous trade with those of the less hazardous one. But if, by some disturbing cause, the profits of a business rise or fall below that point which has been described to be their natural amount, a tendency at once is brought into operation to restore the equilibrium, and to make the profits return to their natural amount; this is the equalising tendency which affects profits; but there is no tendency to cause an uniform rate of profit to prevail in different trades. It will be important to explain the mode in which this

BOOK II.  
CH. V.

*which may  
be called  
the natural  
rate of  
profit.*

*Profits of  
different  
trades do  
not tend to  
become  
equal,*

*but to  
reach this  
natural  
rate of  
profit.*

BOOK II.  
CH. V.

## Example.

*The profits  
of the  
cotton  
trade when  
unusually  
raised  
tend to  
sink.*

*The manu-  
facturers  
would  
borrow  
more  
capital,*

equalising tendency acts, both when the profits of trade rise above their natural amount and when they fall below it.

First, let us consider an example of a rise. During the years 1859 and 1860, the cotton trade was in a most flourishing condition; cotton-spinners realised far larger profits than other manufacturers. The cause of this active trade was an abundant cotton crop in America, and an unusually large demand for cotton goods in the East. The American civil war quickly destroyed this sudden prosperity; a deficiency in the supply of raw cotton threw a gloom over the manufacturing industry of Lancashire; but if the American difficulties had not occurred, the profits of the cotton trade could not have continued to be what they were during the years 1859 and 1860. Profits were then suddenly raised greatly above their natural amount; they would, in the course of time, have inevitably been restored to their proper level by the competition of capital. In the first place, the large profits realised by the manufacturers would induce them to extend their trade as much as they possibly could; for they would know that, as long as the manufacture continued so thriving, their capital would not realise such large returns in any other investment. They would, therefore, be naturally anxious to withdraw capital from other investments, for the purpose of employing it in their own business. In a country where capital is so rapidly accumulated as it is in England, large amounts of capital are always available, if an eligible investment is offered. The transactions connected with the borrowing and lending of capital are carried on by bankers, stock-brokers, and bill-discounters; all these are men of great acuteness and practical ability, who are ever ready to avail themselves of the slightest advantage which any particular investment may offer<sup>1</sup>. When the profits of a manufacturer are extremely

<sup>1</sup> One of the late Mr Walter Bagehot's essays on *The Postulates of Political Economy* deals from the practical point of view with the rapid transfer of capital to those trades which are exceptionally prosperous. He says:—"The whole loan-fund of the country lying in the hands of bankers and bill brokers, moves in an instant towards a trade that is unusually profitable, if only that trade can produce securities which come within banking rules. Supposing the corn trade to become particularly good there are immediately twice the usual number of corn bills in the bill brokers' cases; and if the iron trade, then of iron bills. You

large, he considers that it will repay him to extend his business to its utmost possible limits, by applying to a banker, or discount-broker, for loans. In such prosperous times he can offer favourable terms for these loans, and they are readily granted to him; and thus there is scarcely any practical limit to the amount of capital which may be suddenly brought into a trade, when it is in an exceptionally prosperous condition, and when its profits consequently rise above their natural amount. Such a sudden accession of capital may operate, in two distinct ways, to reduce profits. In the first place, there will be an increased demand for the raw material, and the raw material will consequently rise in price. Now it is a well-known fact, that a manufacturer is not immediately compensated for an increase in the price of the raw material by a corresponding rise in the price of his manufactured goods; consequently, the profits of the trade will be reduced if the anxiety to extend a particular manufacture, when trade is good, causes such an increased demand for the raw material that its price is raised. But as the manufacture is thus extended, the supply of goods would be largely increased, and will soon become perhaps more than sufficient to meet the demand. The cause which has mainly produced the prosperity and large profits of the trade will then cease to exist; for if the supply exceeds the demand, high prices will be replaced by low ones, and the profits of the trade will be quickly reduced. We cannot discuss at greater length the effect which is produced on prices by such an alteration in the supply of, or demand for a commodity such as that just noticed, without anticipating the subject of 'value,' which will be considered in the next division of this work.

There is, however, another equalising influence which will be brought into operation if the profits of any particular business continue long to exceed their natural amount. Not only will those already engaged in the business bring more capital into it when its profits exceed the natural rate; but other traders will be induced to embark their capital in an industry which is exceptionally prosperous. A similar influence to that above described,

*which  
would  
lower the  
profits in  
two ways;*

*and more  
capital  
would be  
attracted  
from other  
trades.*

could almost see the change of capital, if you could look into the bill cases at different times." *Economic Studies*, p. 45.

BOOK II.  
CH. V.

*These changes would take place slowly,*

*and would at first raise the rate of wages in the trade, and depress profits.*

to reduce profits, will be thus brought into operation. But it would be very erroneous to conclude that these equalising tendencies are instantaneous in their effects. Augmented supplies of capital may be quickly brought into any particular trade, but the trade cannot suddenly be extended beyond certain limits. During 1859 and 1860 every cotton mill in Lancashire was probably producing as large a quantity of manufactured goods as it possibly could; the existing machinery was worked to its utmost, and however large might have been the supply of capital, the quantity of goods manufactured could be increased in no other way than by erecting new mills. But the construction of new mills and new machinery requires time, and during this time those engaged in the manufacture can take full advantage of the high profits. These considerations, however, suggest another circumstance which very materially reduces the high profits that prevail in times of active trade. In the case just described it is evident that as manufacturers will be anxious to extend their business as much as possible, not only will all their mills and machinery be in full work, but they will actively compete for labour. A considerable portion of the new capital which is attracted to the industry will consequently, in the first instance, be employed as circulating capital, or, in other words, will be paid away in wages. It has, however, been pointed out, in the last chapter, that the skilled labour which a particular industry requires cannot be suddenly increased by engaging labourers who had been accustomed to other occupations; consequently the additional amount of circulating capital which is attracted to a trade by high profits is chiefly employed, not in obtaining labourers from other branches of industry, but in raising the wages of those who are already engaged in the trade. Such a rise of wages must exert a direct influence to reduce profits. It has therefore been shown that a rise in the price of raw material, a constantly increasing supply of goods, and an advance in wages, are three circumstances which are sure to reduce the profits of a particular trade, when they are exceptionally high. These reducing tendencies not unfrequently continue so long, that the profits of a trade are ultimately reduced below their natural amount; in fact, it may be

often observed, that activity of trade is regularly succeeded by a corresponding depression. When, however, a trade is so depressed that its profits fall below their natural rate, then equalising tendencies are brought into operation, which raise the rate of profit; these tendencies we will now proceed to describe.

Let it be supposed that a trade has been affected by adverse circumstances, and that its profits are reduced below the natural rate. In the autumn of 1862 the cotton trade was in an extremely depressed state. The price of raw cotton had risen so much, in consequence of the American civil war, that it was almost impossible, without incurring loss, to manufacture cotton goods at the prices they then realised. In fact, it would perhaps have been advisable for manufacturers to have closed their mills, had it not been for the sufferings which would have been entailed upon the operatives. Under such circumstances it was the interest of the manufacturers to contract their business; some mills were consequently closed, and great numbers worked short time. The supply of cotton goods was thus for many years considerably diminished. In this way a tendency was brought into operation to raise prices, and profits were gradually restored to such an amount as again to make the manufacture remunerative. When trade is thriving everything is done to increase the capital applied in the business; but when trade is depressed, a directly opposite course is pursued; operations are restricted, capital is withdrawn, less is paid in wages, and new mills are not erected.

The circumstances, however, which threw the cotton manufacture into a state of stagnation, are so exceptional, that it will perhaps be more advisable to illustrate our remarks by considering the condition of the silk trade in this country. It is supposed, by some, that the French possess natural advantages for the manufacture of silk, greatly superior to those of our own country. It is, for instance, said that, owing to the clear atmosphere of France, the silks assume a finer colour than those which can be produced in England, and the French have greater skill in producing to order a dye of any particular shade. The result is that, at the present time, French silks are considered to be superior to English silks. The conse-

BOOK II.  
CH. V.

*The contrary case.*

*Profits depressed below the natural rate tend to rise.*

*Case of the silk trade.*

BOOK II.  
CH. V.

quence has been, that since 1860, when the duty on French silks was removed, the English silk trade has been greatly depressed, and its profits have been reduced below the natural rate. Let us inquire what will occur if the supposed superiority of French silks is permanently maintained. The English silk trade will continue to be depressed; but the question arises, Will the profits of this trade remain, therefore, constantly below their natural rate? It is impossible that such should be the case, for manufacturers will not permanently continue an industry from which they realise less profit than that in any other branch of trade. Silk manufacturers would, therefore, under the circumstances assumed, remove their capital as quickly as possible from this trade, and employ it in some other more remunerative way. The transfer cannot be made suddenly; it will require a considerable time, and must cause great loss to the manufacturers. All the fixed capital employed in the silk manufacture, such as machinery and buildings, cannot be adapted to other industrial purposes without involving a large outlay. The manufacturers, too, will not readily submit to the change; they will struggle with the adverse circumstances for a considerable time. No man, even independently of the pecuniary sacrifices involved, would willingly change a business to which he has been accustomed, and in which he has acquired skill, for one to which he would be a stranger. A trade therefore, if its profits were permanently reduced below their natural amount, would, after a certain time, be entirely relinquished, and individuals engaged in the trade would be severe losers.

*The effect produced by the depression of a trade upon the wages of the labourers employed in it.*

It is scarcely necessary to observe, that under these supposed circumstances the operatives in the silk trade would suffer even more severely than their employers. Each year as the depression continued the demand for labour would steadily diminish. Wages would become lower and lower, and a greater number of operatives would be thrown out of employment. There are always those who cling to hope, after all hope is gone. Many, consequently, would remain in the locality, eking out a miserable existence upon alms and parochial relief; and would thus become permanently pauperised. Those who are more sagacious or more enterprising would recognise the true state of the

case, and would meet with promptitude the misfortune which had befallen their trade. Before their savings were exhausted they would emigrate to some foreign country, or migrate to some locality where the demand for labour was active.

It not unfrequently happens when a trade is depressed that a great injury is done to the operatives by charity and by parochial relief. Labourers are thus induced to remain in the locality in which trade is slack; whereas, if affairs were allowed to take their natural course, or, if the money subscribed by the charitable were devoted to the promotion of the emigration and migration of labour, it would greatly diminish the loss which the labourers suffer in consequence of depressed trade. During the four or five years of the American civil war, when the cotton trade of Lancashire was almost paralysed, vast sums obtained by private subscriptions and by parochial relief were distributed amongst the Lancashire operatives. When this enormous almsgiving was taking place, too little attention was paid to a most significant fact. At the time when the trade of Lancashire was depressed, other branches of industry were so flourishing that there was no diminution, but an augmentation in the aggregate trade of the country. It was therefore clearly indicated that there was no falling off in the general demand for labour, but simply a transfer of a portion of the demand from one locality to another. The natural remedy was consequently to assist a certain number of the Lancashire operatives to migrate to those localities where a new demand for labour had arisen. A contrary course was adopted. These operatives were virtually bribed to remain in their own county, and the result was in many ways unfortunate. For several years after the cessation of the war the cotton trade continued to be depressed. Many mills worked only half-time, and there was in many localities a considerable amount of unemployed labour. It is evident that there would not have been this excess in the supply of labour, and the severity of the subsequent depression would have been greatly diminished, if a portion of the funds, which were spent in charity, had been expended in assisting some of the operatives to seek employment in localities where the demand for labour was active.

*The case of the Lancashire cotton operatives described.*

BOOK II.  
CH. V.

*Causes  
which re-  
gulate the  
general  
rate of  
profit.*

*Statement  
that the  
rate of  
profit de-  
pends upon  
wages ex-  
amined.*

Having remarked upon the equalising tendencies which preserve the profits of each department of industry at a certain relative amount, designated the natural rate of profit, we shall next proceed to consider the causes which regulate the general rate of profit prevailing throughout the country at any particular time. It has been previously stated that the general rate of profit is higher at one time than at another, and that very different rates of profit prevail in different countries.

If any manufacture is taken as an example, it is manifest that the produce is shared between the employer and the employed; or, in other words, between profits and wages. In any given case, the more the employer receives, the less will be left for the employed; or, in other words, the more is taken in the form of profits, the less will be given in wages. If wages take a larger share of the produce, profits must take a smaller share. Suppose, however, that industry, by the introduction of new machinery, is rendered more productive, there will then be a greater quantity of produce to be distributed, and more may be apportioned to profits, without the slightest reduction in wages. But, although the amount of wages received might remain the same, yet it has been customary for political economists to say, that under such circumstances the rate of wages is altered; for they conceive that the rate of wages is determined by the ratio which wages bear to profits. Ricardo employed the expressions, 'rate of wages,' and 'rate of profit,' to explain merely the terms of a ratio; and he would have said, that even if wages were reduced one half in amount, the rate of wages and the rate of profit would remain unaltered, supposing that the reduction in wages was accompanied by a corresponding reduction in profits. Although this proposition as explained by Ricardo is strictly accurate, yet the language employed in enunciating it, makes the statement appear unnecessarily in conflict with popular opinions with regard to wages.

In order to understand what is meant when it is stated by Ricardo and others that profits depend upon wages, it is necessary to bear in mind that profits may be defined to be the surplus which remains after the capital has been replaced which has, directly or indirectly, contributed to



the production of wealth. The proportion this surplus bears to the capital which has been so expended determines the rate of profit. If the expenditure of a certain quantity of capital produces an amount of wealth equal to three times its value, then the surplus which remains, after the capital expended has been replaced, will equal twice the value of this capital; and, therefore, the rate of profit will, in this case, be two hundred per cent. But when it is said that capital is expended in the production of wealth, it is important to understand what this expression signifies. A great portion of this capital is paid away directly in wages; the remainder is spent in purchasing materials or machinery; but even when such a material as coal is bought, the money with which it is purchased may be regarded as indirectly devoted to paying wages; for the money for which coal is sold pays the wages of all those who have contributed to raise it. The capital, therefore, which is applied to the production of any commodity is expended, either directly or indirectly in wages. The rate of profit, as we have just remarked, depends upon the ratio which the whole produce raised bears to the capital expended in raising this produce; and, since this capital is expended in paying wages, Ricardo and others have stated that the rate of profit depends upon wages. This principle, however, is comparatively useless, and is moreover not strictly correct unless a particular signification is given to the terms employed in its enunciation. For if labour is rendered greatly more efficient, either by better education, by superior management, or by improved machinery, more produce will be raised by the application of the same quantity of labour. The same capital may be expended, or, in other words, the same amount may be paid away in wages; but, in consequence of the superior efficiency of labour, more will be produced. A greater amount, therefore, will be left to be apportioned to profits; thus the rate of profit will be increased, whilst wages remain unaltered. This is in direct contradiction to Ricardo's principle, that the rate of profit depends on wages; and, therefore, this principle is not correct, unless it is assumed that the efficiency of labour is a constant quantity.

*In what sense it is true.*

Mr Mill has shown that the correct way of stating the principle is, that the rate of profit depends on the cost of

*Correct statement*

BOOK II.  
CH. V.

*of the principle, viz. that the rate of profit depends upon the cost of labour.*

labour. The cost of labour is determined by comparing the wages the labourer receives with the amount of wealth which is produced by his labour. If, therefore, labour is rendered more efficient, the cost of labour is manifestly diminished, because either more produce is raised by the payment of the same amount of wages, or an equal amount of produce results from the expenditure of a smaller sum in wages. When labour is rendered more efficient, it has been shown that the rate of profit will rise, although the same amount is paid in wages. Hence, if whilst each individual labourer receives the same remuneration, his labour produces more, the cost of labour is diminished. The rate of profit therefore varies inversely with the cost of labour. From this principle some most important conclusions may be deduced. If anything occurs to render labour more efficient, profits will be increased, assuming that the labourers receive the same wages as before. It also follows that, when labour becomes more efficient, the rate of profit, and wages, may both be increased; for profits must be increased if the rise in wages is not so great as to make the cost of labour more than it was before the improvement in the efficiency of labour took place. With regard to agriculture, it has been frequently stated, that as land diminishes in fertility, the labour which is applied to it will diminish in productiveness. Twenty labourers working on poor land may not cause as much produce to be raised as ten labourers working on more fertile soil. Unless, therefore, the agricultural labourers receive less wages, the cost of agricultural labour must increase; or, in other words, the rate of profit obtained from farming must decline as it gradually becomes necessary to resort to less fertile land. Let us apply these conclusions to explain some of those points in which the present economical condition of Australia contrasts so strongly with that of England. In enunciating Ricardo's theory of Rent, it has been shown that, in each country, the poorest land cultivated can only pay a nominal rent. The present population of Australia is comparatively small, and her tracts of uncultivated fertile land are almost of boundless extent. The worst land which is cultivated in Australia is far more fertile than the worst land cultivated in England. Hence, agricul-

*Cost of labour in Australia and England.*

tural labour, being applied to a more productive soil, is far more efficient in Australia than in England. The same amount of labour which is employed upon the poorest farms in England would, if applied to any land which is cultivated in Australia, cause a great deal more produce to be raised. Hence, in consequence of the increased efficiency which is thus given to agricultural labour in Australia, the wages of agricultural labourers may be much higher in Australia than in England, and yet the cost of this labour in Australia may be less than it is in England. But if the cost of labour is diminished, the principle just enunciated shows that the rate of profit must be increased; and such a conclusion is amply verified in the case of Australia. Wages are far higher there than in England, and profits are also higher.

There may appear to be a difficulty connected with the explanation just given; for it may be said, the agricultural labour which is applied to some of England's most productive soils yields more than the same quantity of labour applied to even the best land in Australia. It may, therefore, be thought incorrect to say that agricultural labour is less productive in England than in Australia, since it would seem that only that portion of our agricultural labour is less productive which is employed upon our least fertile soils. It must, however, be remembered that the cost of agricultural labour is determined by the cost of that labour which is employed upon the least productive land in cultivation. Rent may be regarded as a sum which the farmer pays for the permission to employ labour upon productive land. The more productive the land, the higher, of course, is the rent; or, in other words, the more favourable the circumstances under which agricultural labour is applied, the greater is the sum which has to be paid as rent. Although agricultural labour employed on a fertile soil is more efficient, yet the farmer obtains no advantage from the cost of this labour being diminished; for what he would thus gain he has to pay away in rent. His profits, therefore, would not be diminished by an increase in the cost of labour, provided that there was a corresponding reduction in his rent. The profits

*The cost of agricultural labour is measured by its cost when applied to the least fertile soil in cultivation.*

which are derived from agriculture approximate to an equality; it is still correct to say, even with regard to agriculture, that the rate of profit is determined by the cost of labour, if it is remembered that in this case the cost of labour is not entirely composed of wages, but also consists of rent, since rent may be regarded as a premium paid when agricultural labour is assisted by a fertile soil. Considered in this light, therefore, the cost of agricultural labour may be regarded as uniform throughout the same country. But in the case in which the worst land cultivated is so poor that only a nominal rent is paid, then rent can no longer be regarded as an element of the cost of agricultural labour. Hence the proposition above enunciated is proved: namely, that the general cost of agricultural labour is determined by the cost of that labour which is employed upon the least productive land in cultivation. If, therefore, food cannot be supplied to an advancing population without continually resorting to less productive land, then one of two consequences must inevitably ensue: either the cost of agricultural labour will increase, and then a decline in the rate of profit will follow; or, if the cost of this labour does not increase, the labourers must receive lower wages; for when labour is applied to less productive land, an increase in the cost of this labour can alone be prevented by paying the labourers lower wages.

*Variation  
in the cost  
of labour  
in different  
countries.*

Enough has now been said to establish the proposition, that the rate of profit depends upon the cost of labour. If, therefore, the rate of profit is higher in one country than in another, it must be because the cost of labour is greater in one country than in the other. Let us inquire into the causes which regulate the cost of labour. If capital increases, without any increase in the number of the labouring population, it is manifest that there is a larger sum to be distributed amongst them; wages will rise, and consequently the cost of labour will increase, and the rate of profit will diminish. If population increases, and capital remains stationary, wages will fall, the cost of labour will be diminished, and the rate of profit will advance. Hence it appears that not only the average remuneration of the labourers, but also the rate of profit, is primarily determined by the

ratio between the capital of the country and the number of its labouring population. This, however, is not a complete explanation, for it would seem to indicate that the rate of profit is higher when wages are low; facts contradict this, for in Australia wages and profits are both higher than they are in England. But the difficulty arises from confusing wages with cost of labour; wages may be very low, and yet the labour be so inefficient, from causes previously explained, that the cost of labour may be extremely high. The English contractors who made the French railways could have engaged any number of French labourers at considerably lower wages than were paid to English navvies; but so superior is the physical strength of an Englishman, that it was proved that one English navvy would do as much work as two French labourers. In this case, therefore, the cost of French labour would be greater than the cost of English labour, although the wages of the English labourer were very much higher than those paid to the French labourer. Again; high wages do not always denote that a large remuneration is received by the labourer. Wages may be high, and food so dear, that a labourer is far better off in a country where wages may not be so high, but where food is cheaper. Hence labourers may be comparatively speaking impoverished, in consequence of the dearness of food, although their wages are high; in such a case the cost of labour would be great, and the result would be a low rate of profit, accompanied by the impoverishment of the labouring class. Such is the result which has to be feared in a country whose increasing population makes food dearer. The supplies of cheap food which have been imported into England since the introduction of free trade have exerted an important influence in sustaining the rate of profit.

After the remarks which have now been made in reference to cost of labour, the reader will be able to appreciate the admirable analysis of Mr Mill, when he says that 'Cost of labour, and therefore the rate of profit, is a function of three variables:'

1. 'The efficiency of labour.'
2. 'The wages of labour' (meaning thereby the real reward of the labourer).

*Cost of labour not to be confounded with wages.*

*Cost of labour and rate of profit a function of three variables:*

3. 'The greater or less cost at which the articles composing that real reward can be produced or purchased.'

If labour becomes more efficient, whilst the wages of the labourers and the price of food remain unaltered, the cost of labour will be diminished. If the wages of the labourers are reduced, whilst there is no change in the efficiency of labour and the price of food, the cost of labour will again be diminished. The cost of labour will also be diminished if the price of food is reduced, and the amount of the labourer's wages, estimated by the commodities they will purchase for him, remains unchanged. If, therefore, the cost of labour, or, in other words, the rate of profit, varies in different countries from time to time, the variations must be due to the influence of one or more of the three circumstances above enumerated. The current rate of interest affords a sufficiently sure evidence of the rate of profit. It would be a most useful exercise for the student to trace to which of the three variables is due a high or a low rate of profit, prevailing in any particular country. In order to assist him in such an examination, we will indicate some of the leading causes upon which depend the efficiency of labour, the real wages of the labourer and the price of food.

*first, the efficiency of labour, which especially depends upon the supply of fertile land;*

In previous chapters the causes have been described in detail which determine the productiveness of labour. It need only here be added that nothing more powerfully promotes the efficiency of labour than an abundance of productive land. But an abundant supply of productive land causes food to be cheap, and under such circumstances, two out of the three causes are brought into operation upon which depend a high rate of profit and a small cost of labour; the influence which is thus produced in increasing the rate of profit, is so great, that in a country like Australia, where there is a large supply of fertile land, profits are high, although a labourer at the same time receives a very large remuneration for his labour.

*secondly, the wages of labour, which depend upon*

The second variable, upon which depends the cost of labour—namely, the remuneration received by the labourer—is determined by the ratio which population bears to capital. It would be foreign to our purpose to attempt

to describe why some countries are more populous than others. Our colonies and the American continent have not yet had time to be thickly peopled with an European population. In the last chapter allusion was made to the power of man's multiplication, and it was stated that Malthus's 'Essay on Population' gives a most detailed and interesting analysis of the checks by which, in various countries, population is restrained. In England, whatever may be the other checks which restrain population, there is one which exercises a preponderating influence in determining the variations in the number of our labouring population. It has been satisfactorily proved that the number of marriages varies with the price of food; diminishing as food becomes dear, increasing as food declines in price. A great portion of the advantage which the poor would derive from the cheapening of food is therefore ultimately lost to them, because the increase of population which is stimulated by cheap food has a tendency to lower wages.

The causes which influence the accumulation of capital are extremely various. Much depends upon national character; one nation may be far more prudent, and may possess much more foresight than another; the inhabitants of one country may consume, in their own personal enjoyment, almost all the wealth they can obtain, whilst in another country saving is promoted by the most rigid economy. No nation will ever accumulate a large amount of capital for the purpose of applying it to productive purposes, until there is sufficient social order to render property secure. But independently of any effects produced upon the accumulation of capital by differences in the character and condition of various nations, it may be observed that the accumulation of capital is always influenced by the rate of profit. If, for instance, the current rate of interest should be greatly increased in England, an additional inducement would be offered to every one to save; the result would be strikingly exhibited by a greatly increased accumulation of capital. The amount of wealth, therefore, which is saved in a country is kept, as it were, confined between certain limits by a self-acting agency. For if in any particular year there should be some irregularity which should cause a much larger capital to be

BOOK II.  
CH. V.

*the relative  
increase of  
population*

*and capi-  
tal.  
The in-  
crease of  
capital  
itself de-  
pends upon*

*the rate of  
profit,*

BOOK II.  
CH. V.*and the  
national  
character.**Thirdly,  
the cost of  
producing  
the real  
wages.*

saved than is customary, the labourers would, in consequence of this augmentation of capital, receive higher wages; the cost of their labour would thus be increased, the rate of profit would diminish, and the current rate of interest would fall. In this manner less inducement would be held out for individuals to save, and a force would be created to restore capital to its former amount. Sufficient capital might soon be accumulated in England to reduce the current rate of interest to two per cent. This was the current rate of interest in Holland at the end of the last century; the Dutch at that time were therefore content with two per cent., but the English are not satisfied unless three per cent. can be obtained. The current rate of interest, therefore, to a great extent, depends upon national character; for if the English, as a nation, became more prudent, and more anxious to save, the current rate of interest might rapidly decline to two per cent.

The effect which is produced upon the rate of profit by the last of the three variables, upon which the cost of labour depends, has not generally been sufficiently considered. Suppose an employer pays 1000*l.* in wages, and that his labourers spend the greater portion of these wages in purchasing food. We have ascertained that an agricultural labourer with a family consumes forty per cent. of his wages in purchasing bread; 400*l.* therefore, out of 1000*l.* paid in agricultural wages, is devoted to the purchase of bread<sup>1</sup>. Suppose, by some cause, such as the introduction of free trade, that the price of bread is reduced one-fourth; a loaf before sold for 1*s.* now only costs 9*d.*; 300*l.* will purchase as much bread as 400*l.* did before the price of bread was reduced. The labourers therefore, who amongst them received 1000*l.* in wages, will now be quite as well off if they only receive 900*l.*

<sup>1</sup> This calculation was made on the supposition that the labourer's family consisted of a wife and two children who were too young to be employed, and that the wages of the labourer were 10*s.* a week. At the time when this book was written, 10*s.* represented more than the ordinary wages of the agricultural labourer in those districts of England where wages were lowest. In numerous instances not more than 8*s.* or 9*s.* were paid. Happily, however, within the last few years there has been a marked rise in agricultural wages, and 12*s.* a week are paid where formerly 10*s.* were paid.



Their real wages will remain unchanged, although their nominal wages have been reduced one-tenth. The cost of labour might thus, in consequence of bread being cheapened, be reduced one-tenth, without the condition of the labourer being in the slightest degree deteriorated. But the question may very reasonably be asked, Will the employer be able to appropriate to himself the whole advantage? Is cheap food only instrumental in increasing the rate of profit? We shall be able to explain why this seldom or never takes place; the advantage is invariably shared in the first instance between the employer and the labourer. When the cost of labour is diminished, the capital previously existing can support an increased amount of industry. In the example we have above given, a farmer, in consequence of bread being cheapened, pays only 900*l.* in wages instead of 1000*l.* He, therefore, has 100*l.* to spare. This he may apply in employing more labourers on his farm, or he may invest it as capital in some other undertaking. In either case, the labourers as a class are benefited by a proceeding which virtually increases the capital of the country, and therefore the demand for labour; but if this be so, their wages will be raised, and they will share with their employers the advantage of cheap food. One case may be supposed in which the labourers would not be benefited, even in the first instance, by cheap food. If the 100*l.* which, in the above example, the employer saves by the cost of labour being diminished, is not saved as capital, but is spent upon the employer's own enjoyment, the labourer's wages will not be increased; for the capital of the country will be decreased in proportion to the diminution in the cost of labour. The case last supposed would rarely occur, for an increased rate of profit seldom makes men more extravagant; it in fact produces an opposite influence, for it most powerfully stimulates the accumulation of capital.

In describing the advantage which cheap food confers upon the employer and the employed, we have been careful to denote that the benefit enjoyed by the labourer may only be a temporary one. It has already been stated that a considerable portion of our population is in so low a condition, both socially and morally, that even a slight addi-

BOOK II.  
CH. V.

*A diminution of this cost will be beneficial both to the employer and labourer.*

*The benefit to the labourer will only be temporary if it stimulates a large in-*

BOOK II.  
CH. V.crease of  
population.

The influence exerted on profits and wages by the export of capital.

tion to their means of livelihood immediately causes an increase in the number of marriages. In a few years there is consequently an increase in the supply of labour, which will probably more than absorb the advantage the labourers might have derived, either from the cheapening of food, or from any other circumstance calculated to improve their material condition. This affords an explanation of the comparatively small effect which free-trade has produced upon the condition of our worst paid labourers. It was supposed that when the corn laws were repealed, pauperism would become almost extinct. The country has enjoyed free trade for more than 30 years, and pauperism still assumes most serious proportions. It will be shown, in a subsequent chapter on the poor law, that this sad and disappointing fact is a striking illustration of the important principle that an improvement in the material condition of the labourer cannot be permanent, unless it is accompanied by a corresponding social and moral advancement.

Before concluding this chapter, it is important to direct attention to the great influence exerted upon profits and wages by the export of capital. It has already been shown that the current rate of profit may be regarded partly as the cause and partly as the effect of the amount of capital accumulated. An increase in capital tends *ceteris paribus* to lower the rate of profit; whereas an advance in the rate of profit promotes the accumulation of capital. It is however essential to bear in mind that only a portion of the aggregate wealth which is annually saved in any country is invested in its own industry; the remainder is exported to be employed as capital in other countries. Hence the capital annually saved in such a country as England is divided into two portions; that portion which is exported produces no immediate effect upon the current rate of wages and profit prevailing in England. Consequently in all discussions relating to wages and profits, it is important not only to consider the whole amount of capital annually saved, but particular attention must be directed to the portion of this aggregate capital which is retained for home investment. It is evident that the relative magnitude of the two portions into which a nation's capital is thus divided will be

regulated by the profits which are respectively realised by home and foreign investments. If a rise in the rate of profit abroad should be unaccompanied by any advance in the rate of profit at home, an influence is at once brought into operation to increase the relative amount of the capital which is exported, and consequently to diminish the amount retained for home investment. Although, therefore, there is no diminution in the national capital, yet as a smaller amount is employed in home industry, the effects that ensue will, in many respects, be analogous to those which would occur if the amount of wealth annually saved were diminished. This is particularly the case, as shown in the previous chapter, with regard to wages, which, depending upon the amount of circulating capital, must evidently be regulated, not so much by the whole amount of capital annually saved, as by the amount which is retained for home investment. It will be very necessary to bear this in mind when considering the various expedients which are resorted to for raising wages. It may here be generally said that an advance in wages, unaccompanied by any increase in the efficiency or productiveness of labour, can seldom confer a permanent benefit upon the labourer. Such an advance in wages will lower the rate of profit at home; a greater proportion of the national capital will therefore be invested abroad and the amount spent in wages will be decreased.

## CHAPTER VI.

### PEASANT PROPRIETORS.

BOOK II.  
CH. VI.

*Different  
kinds of  
land  
tenure.*

THE reader has already been warned against the conclusion that the present system of land tenure in England is to be regarded as the type of that which prevails throughout Europe and the other civilized parts of the world. A very considerable portion of the land in England belongs to the large estates of the aristocracy; land is rarely cultivated by its owner. The farms in England are generally large, and are becoming larger; they are almost entirely cultivated by hired labour; and, consequently, the produce of the land has to be distributed amongst landlords, farmers, and labourers. But the condition of England in this respect was, a few centuries since, very different. No class of men in our early annals occupied a more prominent or honourable position than the yeomanry. Their praises have been sung by our greatest poets; their sturdy independence on many occasions preserved the liberty and proved the courage, of the English race. The tenant farmers of the present day differ essentially from the old yeomen of England, who were freeholders, cultivating the land which they owned. Their holdings were generally much smaller than those of the present day. In many continental countries, such as France, Norway, Switzerland, Italy, Belgium, Prussia, and some of the German states, much of the land is still possessed by small proprietors, termed peasant proprietors, who own the land which they cultivate. A peasant proprietor frequently cultivates his farm entirely by the labour of himself and his family. In this case, land, labour and capital are all supplied by the same individual;

*Differences of opinion as to the advantages of peasant proprietorship.*

he therefore claims the whole produce of the land; and rent, wages, and profits are merged together. The question as to the comparative advantages and disadvantages of cultivating the land by peasant proprietors has been, perhaps, more keenly discussed by political economists than any other subject. On the Continent, not only political economists, but practical farmers, are decidedly favourable to peasant proprietorships; they can of course watch the system in actual working, and are therefore in a much better position to judge of its effects than we who have now no opportunity of observing any considerable tract of land in England cultivated by peasant proprietors. English opinion is so strongly in favour of large farming, that we may naturally expect to find that our countrymen almost invariably express themselves antagonistic to a system of peasant properties, which implies small farming. Amongst English political economists the two most prominent champions of peasant properties have been Mr Mill and Mr W. T. Thornton. Both of these writers have collected a great mass of facts bearing upon the subject, and have discussed these facts with the most perfect impartiality. Much of the opposition which has been expressed by English writers towards peasant proprietors is undoubtedly due to a radical misconception. Peasant proprietorships imply small farms, but a small farm cultivated by its owner differs essentially from a small farm either occupied by a tenant at will or rented upon a lease; we believe that the whole advantage which can be attributed to peasant properties is almost entirely due to the fact that the cultivator owns the soil which he tills. The well-known Arthur Young, whose preference in favour of large farming was most decided, has very happily said, 'Give a man the secure possession of a bleak rock, and he will turn it into a garden; give him a nine years' lease of a garden, and he will convert it into a desert.'

*The advantages of large farms considered.*

In a previous chapter, various reasons have been stated which lead to the conclusion, that large farms are more productive than small farms, when land is cultivated not by its owner, but by a tenant<sup>1</sup>. This opinion is corroborated by the facts of every-day experience; for there can

<sup>1</sup> See Book I., Chap. VI.

be no doubt that the size of farms in England is increasing, rather than diminishing; and the advantage of large farms is sure to be more prominently shown, as machinery of an expensive character becomes extensively used in agriculture. It cannot be supposed that small farms are being absorbed into larger ones, simply in consequence of the caprice of landlords; the absorption takes place, because tenants and landlords have alike learnt that a higher rent can be paid for a farm of six hundred acres, than for the same land divided into two farms of three hundred acres. But, although it can be proved that large farming is more productive than small farming, yet such a conclusion does not definitely decide whether or not a nation is benefited by a class of peasant proprietors; for it has been already stated, that there is a fundamental distinction between a peasant proprietor and a small tenant farmer. Now we believe that very great social advantages are derived from peasant proprietorships; but before enquiring into this particular branch of the subject, the economical effects resulting from the cultivation of land by peasant proprietors will be described. The question is in fact reduced to this—To what extent are the disadvantages which are associated with small farming compensated by the advantages which arise from the cultivator feeling that the land is his own? We will first make some general remarks on the subject, and then substantiate our opinions by well-authenticated facts.

*Incon-  
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proprietor-  
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Many of the inconveniences which belong to farming on a small scale, exert a similar influence when an equally small farm is cultivated by a peasant proprietor. The want of proper machinery and implements is the most formidable difficulty with which small farming has to contend; and it may be observed, in England, that the implements and stock of small farms are generally of an inferior kind. A small farmer has not sufficient capital promptly to take advantage of improved implements, and it often would not answer his purpose to make a considerable outlay in purchasing a new machine, considering the little work it would have to do on a small farm. The expenses of a small farm are comparatively much greater than those of a large one; a flock of six hundred sheep would probably require only one shepherd, but six separate

flocks of a hundred sheep would each require a shepherd. A similar consideration applies to much of the other labour which is employed upon a farm; a farmer is obliged to spend the same time in going to a fair or market, whether he has 50*l.* worth of stock or corn, or whether he has 500*l.* worth to dispose of. Farmers appreciate this, for it is proverbially said that small farms cannot compete with large ones, because the profits of a small farm are eaten up by expenses. A small farmer in England is generally occupied, partly in labouring himself, and partly in superintending the labour of others. Frequently he is efficient neither as a labourer nor as an overlooker of labour, and the want of industry in our small farmers has been often remarked. It must, however, be borne in mind, that both the large and small tenant farmers have no adequate interest in improving the land; for if capital is spent by a tenant farmer in improvements, the landlord, at the expiration of the lease, may appropriate the whole advantage to himself by raising the rent. There are, moreover, improvements of a more difficult and delicate kind, which, it appears, will rarely be carried out unless the cultivator is stimulated to the most watchful and untiring industry, by the feeling that the land which he improves is his own property. The testimony of Arthur Young on this point is very valuable:—‘Leaving Sauve,’ says he, ‘I was much struck with a large tract of land, seemingly nothing but huge rocks, yet most of it enclosed and planted with the most industrious attention. Every man has an olive, a mulberry, an almond, or a peach-tree, and vines scattered among them; so that the whole ground is covered with the oddest mixture of these plants and bulging rocks that can be conceived. The inhabitants of this village deserve encouragement for their industry, and if I were a French minister they should have it. They would soon turn all the deserts around them into gardens. Such a knot of active husbandmen, who turn their rocks into scenes of fertility (*because, I suppose, their own*), would do the same by the wastes, if animated by the same omnipotent principle.’ Again, ‘Walk to Rosendal (near Dunkirk), where M. le Brun has an improvement on the Dunes, which he very obligingly showed me. Between the town and that place is a great number of neat little

*How these inconveniences are compensated in the last case.*

*The magic of property.*

BOOK II.  
CH. VI.

*Evidence  
in favour  
of small  
properties  
derived  
from the  
state of  
Flanders.*

*Cultiva-  
tion of  
sand-  
dunes.*

houses, built each with its garden and one or two fields enclosed, of most wretched blowing dune sand, naturally as white as snow, but improved by industry. *The magic of property* turns sand into gold.

Flanders affords the most striking example of the influence produced by what Arthur Young so aptly terms 'the magic of property.' The farming both in East and West Flanders has long been celebrated; it is unsurpassed in Europe; for, as Mr M'Culloch says, 'Its natural soil consists almost wholly of barren sand, and its great fertility is entirely the result of very skilful management and judicious application of various manures.' Such a tract of land, if owned by a landed aristocracy, would have remained a barren waste. It would be worthless to be rented by a tenant, and no labour which a landlord could have hired would have bestowed that unwearied and intelligent industry which has converted barrenness into luxurious fertility. This will become evident when we know the agency by which these improvements have been effected. It has been frequently remarked by those who have travelled through Flanders, that the Flemish agriculturists want nothing but space to work upon. Whatever the quality of the soil may be, in time they will make it produce something. The sand in Campine is like the sands on the seashore, of which it originally was a part; and here you see a cottage and rude cowshed erected on a most unpromising spot. The loose sand is held together in little mounds by the roots of the heath. A small spot being selected, it is surrounded by a ditch and levelled; it is then planted partly with broom and potatoes, and perhaps a small patch of diminutive clover, and manures both solid and liquid are collected. This is the nucleus from which, in a few years, a little farm will spread around. The only thing that will grow on this sand without manure is broom, and this will be sown if no manure can be got, and will in three years be fit to cut, when it is sold to bakers or brickmakers. The leaves falling enrich the soil, and the roots give it a compactness; it may now be sown with buckwheat or rye without manure. When this is reaped, some manure may have been obtained, and a course of cropping may begin. With the aid of clover and potatoes, a farmer may keep cows and make



manure; the improvement will be so rapid, that in a few years the soil will become as mellow, retentive of moisture, and enriched by manure and the decomposition of vegetable matter, as soil which was originally good; and the crops produced by both soils will be more nearly alike at harvest, than is the case in soils of different qualities in other countries. The people who have achieved these great results in agriculture are principally peasant proprietors, and they labour so earnestly and so intelligently because the ground they till is their own. The Flemings, at a time when English agriculture was in a most backward condition, followed a most approved system of rotation of crops. The English farmer is generally a better educated man than these small Flemish proprietors. He has money at his command, a far larger capital than they have, and therefore he is able to purchase superior implements; but a competent authority has observed, 'that in the minute attention to the qualities of the soil, in the management and application of manures of different kinds, in the judicious succession of crops, and especially in the economy of land, so that every part of it shall be in a constant state of production, we have still something to learn from the Flemings, and not from an instructed and enterprising Fleming here and there, but from the general practice.'

Authorities seem unanimously to agree upon the great industry evinced by peasant proprietors, and thus peasant proprietors would appear essentially to differ from small farmers who rent the land they cultivate; for indolence is generally assigned as the fault of this latter class. Mr Ingliss was forcibly impressed with the wonderful industry of the peasant proprietors of Zürich. Mr Laing, a traveller, who, with singular acuteness, observed the economy of various European countries, remarks, when speaking of Norway, the country where peasant proprietors are most numerous and of longest standing in proportion to the population, 'if small proprietors are not good farmers, it is not from the same cause here which we are told makes them so in Scotland—indolence and

BOOK II.  
CH. VI.

*Excellence  
of Flemish  
farming.*

*Evidence  
to the  
same effect  
from  
Zürich,*

*Norway,*

<sup>1</sup> See an article on Flemish Husbandry in the Farmers' Series of the Society for the Diffusion of Useful Knowledge.

BOOK II.  
CH. VI.and  
France.

*Certain  
objections  
to peasant  
proprietor-  
ship are  
obviated  
by the co-  
operation  
of labour,  
as shown  
by the Nor-  
wegian  
peasants.*

want of exertion. The extent to which irrigation is carried on, in these glens and valleys, shows a spirit of exertion and *co-operation* to which the latter can show nothing similar.' Once more we will quote Arthur Young, who has most happily expressed the effect which the feeling of property exerts in stimulating industry. Although Arthur Young often found great fault with the agriculture which he observed on some of the small properties in France, yet he remarks that what he saw in France 'proved that property in land is, of all others, the most active instigator to severe and incessant labour. And this truth is of such force and extent, that I know of no way so sure of carrying tillage to a mountain-top, as by permitting the adjoining villagers to acquire it in property; in fact, we see that in the mountains of Languedoc they have conveyed earth in baskets on their backs, to form a soil where nature had denied it.' It has been often urged as an objection against small properties in land, that there are many important improvements which can only be carried out by a cooperation of labour and by a combination of resources, which, it is supposed, would not exist among small proprietors. For instance, it may be impossible to drain one isolated field, if those around it remained undrained; an outlet must be found for the water, and in this way the interests of an adjoining property might be affected. Again in many countries the fertility, and consequently the value, of the land depends on irrigation. Any one who is acquainted with those works of irrigation which, for instance, in Wiltshire and Hampshire, have converted many of our English valleys from almost useless swamps into the richest meadow-land, will no doubt have observed, that the most expensive of these works are not constructed for any particular field, but serve a large tract of country. Therefore it might be supposed that irrigation would never be attempted, if it were necessary to consult the conflicting interests of a great number of small proprietors. Such a supposition is completely met by the testimony of Mr Laing with regard to Norway, who assures us that in many districts entirely occupied by peasant proprietors, irrigation is carried out to its fullest possible extent. Mr Laing emphatically speaks, not only of the industry, but also of the *cooperation* of

labour, shown by the Norwegian peasant proprietors in irrigating their land.

English writers, whilst allowing that a small proprietor may cultivate his land with great care, have almost invariably assumed that this kind of cultivation is more suited to a garden than a farm, and hence it is frequently stated that farming by peasant proprietors is much more expensive than farming on a large scale. The gross produce from small properties may be greater, but the net produce, it is said, cannot be. Some continental agriculturists have, however, enquired into this subject with great care, and their conclusions are worthy of attentive consideration. Amongst a great number of German writers whose opinions upon this subject coincide, we select Albrecht Thaer, a writer on the different systems of agriculture, and who had, in some of his earlier works, expressed himself very decidedly in favour of large properties divided into large farms. He says he is convinced 'that the net produce of land is greater, when farmed by small proprietors, than when farmed by great proprietors or their tenants.' Mr Kay, a most intelligent English writer, expresses the same opinion, and says:—'The peasant farming of Prussia, Saxony, Holland, and Switzerland, is the most perfect and economical farming I have ever witnessed in any country.' But if the net produce of land is increased when occupied by small proprietors, a large estate ought, of course, to be more valuable if it were divided among several small proprietors. Upon this point M. Reichensperger has given some most valuable information, based upon personal observation, and upon statistical facts. He expresses a very decided opinion, not only that the gross produce of any given number of acres held and cultivated by small or peasant proprietors, is greater than the gross produce of an equal number of acres held by a few great proprietors, and cultivated by tenant farmers; but that the net produce of the former, after deducting all the expenses of cultivation, is also greater than the net produce of the latter. He mentions facts which seem to prove that the fertility of the land, in countries where properties are small, must be rapidly increasing, and substantiates this opinion by proving that the price of the land which is

BOOK II.  
CH. VI.

*Is the net produce greater on small properties, as well as the gross?*

*Evidence of A. Thaer,*

*Mr Kay,*

*and M. Reichensperger.*

*Rapid increase of*

BOOK II.  
CH. VI.

*the value  
of small  
properties.*

divided into small properties in the Prussian Rhine provinces is much higher, and has been rising much more rapidly, than the price of land on the great estates. This is the most conclusive testimony which can be given in favour of small landed properties; it is in fact a practical and complete solution of the question, for upon this subject abstract reasoning will have little effect in convincing the great bulk of mankind. Opinions quite as favourable to the system of peasant proprietors as those just quoted have been expressed by more recent writers. No one has taken more pains to observe the actual working of the system in France, the Channel Islands and other places than the Rev. F. Barham Zincke. His testimony is the more valuable because his position as incumbent of a rural parish in Suffolk has enabled him to become thoroughly acquainted with the condition of our own agricultural population. In the description<sup>1</sup> of a week spent with the family of a small cultivating proprietor in the Limagne he makes special reference to the frugality and other social virtues developed by the system. But even when a very strong case can be made out in favour of small properties, it will not convince a people like the English, who are accustomed to a different system; they will naturally say—If small properties are more advantageous, an estate, if divided, would realise a larger price; and therefore a large estate, whenever it was sold, would inevitably be partitioned into a great number of small properties. The reverse of this, however, has taken place in England; estates have not been more subdivided, for it is well known that within the last few years, in almost every district, a great number of small properties have gradually been absorbed, and combined into large estates; this apparently affords very strong evidence that small properties are not in England economically advantageous.

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It is often erroneously imagined, that if a political economist describes the advantages which are conferred upon a nation by the existence of a class of peasant proprietors, he must therefore be anxious to introduce small

<sup>1</sup> See *Fortnightly Review*, November, 1878, "The Peasants of the Limagne" by the Rev. F. Barham Zincke. See also an article by the same author on "Landowning cultivators," *Fortnightly Review*, January, 1882.

properties into a country like our own by some compulsory measures. But many of the advocates of peasant properties desire no more than that legislation should not foster one system of land tenure more than another. If the law of a country gives no artificial encouragement to any particular form of land tenure, then the development of any system would be spontaneous, and would prove its economic advantage. In England, many circumstances combine, not only to prevent the partition of large into small properties, but also to encourage the rapid absorption of the small properties, which were so numerous in former times. The influence thus exerted to encourage the aggregation of land is partly due to our law of real property; partly to customs which this law fosters; and also partly to causes which may be described as natural, and whose operations cannot therefore be directly controlled. Taking these three different classes of circumstances in order, it may be sufficient here to state that the legal influence referred to arises from the law of primogeniture, from the power of entail, and from a system of conveying landed property which is costly and cumbrous. It is no doubt often truly said that in England primogeniture is maintained much more by custom than by law. No one is compelled to leave his land to his eldest son; and the only occasion in which the eldest son is necessarily preferred to the younger children is in the case of intestacy. When it is remembered that few people die without a will, it is often argued that the law of intestacy, with regard to real property, produces but a very slight effect. It is, however, impossible to say to what an extent the custom of primogeniture, which so generally prevails in England, is encouraged by this law. When a man dies without a will, it is only fair to conclude that such a disposition is made of his property as the State deems to be most strictly just. The law of England, therefore, virtually affirms that in the case of personal property all the children of a family shall be treated alike; but with regard to real property the extraordinary doctrine is laid down, that it is just that the eldest son, to the exclusion of his mother and brothers and sisters, should inherit all the land possessed by his father. To prefer one child before all the rest is so contrary to the instincts of human nature that the custom

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BOOK II.  
CH. VI.

of primogeniture could not be maintained unless it were supposed that some collateral advantages were associated with it, or unless the custom derived some such sanction as is given to it by the law of this country. In feudal times there were collateral advantages associated with primogeniture, because it was necessary to keep landed estates intact for purposes of protecting them against hostile attack. But now that property is secure, the unnatural institution of primogeniture has no defence except that which it derives from the sanction conferred upon it by our law of intestacy.

*the power  
of entail,*

But great as is the influence which is exerted upon the aggregation of land in England by the law and custom of primogeniture, the effect produced by the law of entail and the practice of settlement is probably still greater. Our law enables land to be settled upon any number of lives in being, and upon the unborn child of the survivor. Until the Settled Land Act (1882) was passed it was seldom possible to sell any part of an entailed estate unless the money was reinvested in land. The effect of this power of entail was to prevent by far the larger part of the land of the country being a marketable commodity. It may be anticipated that the effect of entail will be to some extent modified by the Settled Land Act, to which reference has already been made. This Act authorizes the sale of settled land, but the many conditions associated with the sale will no doubt prevent as much land being brought into the market as would be the case if the law were so changed that every person became the owner in fee of the land in his possession. It is obvious that the direct effect of maintaining any system which restricts the quantity of land that may be brought into the market, is to artificially diminish its supply.

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system of  
convey-  
ancing.*

The acquisition of small properties in land is also impeded by our cumbrous system of conveyancing. It usually happens that the cost of conveying a small plot of land is out of all proportion to its value. It is therefore manifest that a heavy penalty is imposed upon the subdivision of land.

*There are  
also social  
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Beside these causes which are connected with laws that can be at once repealed or modified, the aggregation of land is promoted by other circumstances which cannot

be so directly controlled. Thus in a country which is advancing in wealth and population the number of people who are able and anxious to purchase land is constantly increasing. The possession of land confers social position and political influence. If a man owns a large estate he is certain to be made a deputy lieutenant and probably high sheriff of his county; these social distinctions are highly valued. The possession of land also enables a man to enjoy the pleasures of a country life. There are consequently many collateral advantages associated with the ownership of land; which, in a country such as our own, are each year increasing in value. The price which is paid for landed property is therefore composed of two elements. The one represents the agricultural value of the land and may be estimated by the rent annually yielded. The other element represents the pecuniary value of those collateral advantages associated with land, which have just been alluded to. It is manifest that if this last element constitutes any considerable portion of the whole value of the land, a man cannot afford to become the purchaser of land who desires to cultivate it for profit. It has been previously stated that in a thickly peopled country such as England, the difference between the market value and the agricultural value of land steadily increases; hence each year a smaller area of our land will be cultivated by those who own it. This tendency to separate the cultivation from the ownership of the soil is, as previously explained, greatly intensified by various laws, such as the law of primogeniture and entail. It therefore becomes of particular importance as far as possible to remove all the encouragement, thus artificially given, to promote the aggregation of land. The opinions of the highest authorities on Agriculture, such as Arthur Young and others, have been quoted to show that the feeling of ownership exerts by far the most powerful influence that can be brought into operation to secure the most efficient cultivation of land. The same opinion has been strongly expressed by Adam Smith and by almost every other distinguished political economist who has written since his time.

After having pointed out some of the economic disadvantages associated with the aggregation of land, it

BOOK II.  
CH. VI.

*cal obstacles to the introduction of peasant proprietors into England.*

*Social effects of*

BOOK II.  
CH. VI.*the English system.**Extreme poverty of English labourers.**This extreme poverty produces extreme ignorance.*

will be important to enquire whether there are any counterbalancing advantages resulting from our existing system of land tenure. Even those who are most decided in their opinions as to the productiveness of England's industry, must feel that the condition of those who are employed in agriculture is most unsatisfactory; for there are few classes of workmen who, in many respects, are so thoroughly wretched as the English agricultural labourers. They are in many districts so miserably poor, that if they were converted into slaves to-morrow, it would be for the interest of their owners to feed them far better than they are fed at the present time. In some localities which are at a considerable distance from the manufacturing districts, twelve shillings a week may be regarded as the maximum of agricultural wages during the winter months. A few years since much lower wages prevailed; eight or nine shillings a week were then frequently paid. A moment's consideration will show that such wages are barely sufficient to supply the first necessities of life. Meat cannot be tasted more than once a week, and those who have to exist on this scanty fare are more exposed than any others to the inclemency of our trying climate. Such wages will not permit the slightest provision to be made either for sickness or the feebleness of old age. Throughout large agricultural districts not a single agricultural labourer will be found who has saved as much as a week's wages. A life of toiling and incessant industry offers no other prospect than a miserable old age; for when these labourers are too old to work they will either be paupers in the workhouse, or they must come, as suppliant mendicants, for parish relief. But even the physical suffering which is associated with their poverty is not the worst feature of their condition; their ignorance is as complete as it is distressing. Improved schools, enormous educational grants, and a general zeal for instructing the poor, have failed to educate the agricultural labourers. The reason of the failure is obvious. When children leave school at eight or nine years of age, to become ploughboys, the little that has been learnt is sure to be forgotten; and the consequence is, that in many large agricultural villages there is not one young man who can read sufficiently well to understand a news-



paper. Parents may be accused of neglecting their children's welfare; but how can we expect those who are so miserably poor, who are ignorant themselves and know not the value of knowledge, to sacrifice the two shillings a week that a child of eight or nine years of age may readily earn? Other countries, no doubt, possess labourers who are equally poor and equally ignorant; but the poverty and the ignorance are heightened, when contrasted with the accumulated wealth and the vaunted civilization with which they are surrounded. We make these remarks in order to show, that even if the system of land tenure in this country is productive of wealth, yet that the distribution of this wealth is so unsatisfactory, that those whose labour is instrumental in producing it are miserably poor, and their life in every respect most unenviable. They have, in fact, to work with the regularity of machines, without hope that their condition will be improved<sup>1</sup>.

Let us now inquire whether the condition of an agricultural community is more desirable when the land is owned and cultivated by peasant proprietors. Before quoting any special instances, it may be mentioned that the condition of a man who can enjoy the entire fruits of his own labour is in every respect superior to the condition of one who is simply a hired labourer, and who,

*Social  
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peasant  
proprietor-  
ship.*

<sup>1</sup> Since this description of the condition of the agricultural labourer was written, a remarkable movement, inaugurated by Mr Arch, has led to the establishment of agricultural unions. These unions were commenced in the spring of 1872; they had scarcely been in existence a year when they effected a not unimportant rise in agricultural wages throughout the country. This rise even in the districts where the lowest rate of wages prevailed amounted to not less than 2s. a week; in other districts an advance of 3s. or 4s. a week was secured. From what has already been observed of this movement, during the few years it has been in operation, it seems probable that it will not only obtain a higher remuneration for the agricultural labourer, but it is also likely to exert a powerful influence in promoting his general welfare. This subject will be referred to again in the Chapter on Trade Unions. The condition of the agricultural labourer is likely to be further advanced through improved education. By the Elementary Education Act of 1870 efficient schools were provided for the whole country, including the rural districts; and by an Act which was passed in 1876 many of the evils resulting from a premature employment of children in agriculture have been prevented. No child can now be employed under 10 years of age, and a child cannot be employed between the age of 10 and 14 unless he can produce a certificate that he has received a certain amount of education.

BOOK II.  
CH. VI.*Industry  
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consequently, has no direct interest in the work upon which he is employed. The faculties of the latter are not fully stimulated, his hopes are not excited by success, his energies are not called forth to contend with the difficulties and disasters to which every employment is liable; his life is, in fact, one of 'dull routine.' It may be said that he is spared many anxieties, with which the labourer who is his own master has to contend. But it is almost a truism to assert, that these cares and anxieties are valuable instruments of education, and that without them the human faculties can never be adequately developed. These general observations may be corroborated by actual experience, at least in the case of an agricultural community. All writers on peasant proprietors bear the most decided testimony to their incessant and intelligent industry. In Switzerland, France, Flanders, and the Rhineland, we are told that the small proprietors, who cultivate their own land, economise their time with the most scrupulous care; they earnestly strive to turn every half hour to the utmost possible advantage; they work early and late, and their labour exhibits a watchfulness, and a fostering attention, which is never acquired by hired labourers; magical is the influence which the feeling of property exerts, and truly indeed has it been said by Arthur Young, that it is potent enough to turn sand into gold, and convert a desert into a garden. So great is the industry of peasant proprietors, that some writers have alleged, that they are too industrious; that they are, in fact, too much engrossed in the business of life. But it is with reference to the prudential virtues, that they offer the most striking contrast to our hired labourers. Many of the worst paid workmen in this country are so reckless, that they seldom show any foresight for the future; and some persons, consequently, who are impressed with this fact, have maintained, that higher wages effect no permanent improvement in the condition of the poor; that they do not save their increased earnings, but they either marry with increased recklessness and improvidence, or spend more money in drink. Improved education would no doubt powerfully tend to correct these faults, for an almost entire absence of prudence is one of the most certain effects of ignorance. Even with regard to the higher classes of English workmen one of

the most depressing influences with which they have had to contend is the difficulty of employing any savings which they may accumulate to raise themselves from the position of mere hired labourers. It may be shown that it is not so much the want of means as the want of opportunity which prevents the working classes employing their savings as capital; for the aggregate deposits in the old Savings Banks and in the Post Office Savings Banks exceed 80,000,000*l*. Although a portion of this amount is deposited by those who do not belong to the working classes, yet there can be no doubt that a considerable proportion of this large sum belongs to the working classes and might be employed by them as capital. In referring to the subject of co-operation in a subsequent chapter it will be shown that there are grounds for hoping that with an advance in the general condition of the labourers they will be able by combining to employ their savings as capital in undertakings which to be successful require to be conducted upon a large scale. With regard to agriculture, so far as it can be successfully carried on by peasant proprietors, experience amply proves that no more powerful motive can be brought into operation to encourage prudence than the prospect of a labourer acquiring a plot of land which he can cultivate as his own property. The value of such an acquisition to the labourer is not to be estimated by the amount of wealth with which it enriches him. It makes him in fact a different man; it raises him from the position of a labourer, and calls forth all those active qualities of mind which are sure to be exerted when a man has the consciousness that he is working on his own account.

These remarks are corroborated by the unanimous testimony of competent authorities; for it has been repeatedly affirmed that peasant proprietors are invariably a most thrifty class, and so anxious are they to accumulate capital, that the style of their living has often been erroneously supposed to denote poverty, when it is simply a result of great economy. The advantage to be derived from saving is brought most distinctly home to them. A small proprietor knows, that if he can save a few pounds, he will be able to have another horse or cow, or perhaps some new implement, and he is able clearly to foresee the profit which

*Evidence  
to prove  
the thrifti-  
ness of  
peasant  
proprie-  
tors.*

BOOK II.  
CH. VI.

## Denmark.

he will derive from such a purchase. Let a man once feel how efficient the wealth which he saves may become in producing more wealth, and he is sure in future to exert himself actively to accumulate capital. Mr Browne, who was some years since the English consul at Copenhagen, has made some most interesting observations with reference to the peasant proprietors of Denmark. He bears decided testimony to their thrift, and also to the superior comfort in which they live. Thus, he says, 'The first thing a Dane does with his savings is to purchase a clock, then a horse and cow, which he hires out, and which pay a good interest. Then his ambition is to become a petty proprietor, and this class of persons is better off than any in Denmark. Indeed, I know of no people, in any country, who have more easily within their reach all that is really necessary for life, than this class, which is very large in comparison with that of labourers.'

Mr Jones's  
assertion  
that peasant  
proprietorship  
over stimulates  
population.

A system of small landed properties has sometimes been condemned, because it is supposed to encourage a reckless increase of population. Thus the late Mr Richard Jones, in some lectures which he gave as Professor of Political Economy at the East India College formerly existing at Haileybury, says that the peasant proprietors are 'exactly in the condition in which the animal disposition to increase their numbers is checked by the fewest of those balancing motives and desires which regulate the increase of superior ranks, or more civilized people. He however entirely fails to support this opinion by specific facts. Many other writers besides Mr Jones have maintained that small landed proprietors must become gradually impoverished, in consequence of the continued division of the land amongst the children of each generation. It is not unfrequently assumed, that a man will marry directly he acquires a small landed property, a large family will have to be maintained, and that the father will be able, at his death, to make little or no provision for his numerous children, unless he either divides the land which he owns amongst them, or else leaves the land to one of his children heavily encumbered with annuities, to be paid to the rest. In order to disprove such suppositions, we will in the first place show that all *a priori* reasons would lead us to conclude that the acquisition of property will act

more powerfully than any other circumstance to make a class prudent with regard to marriage; we shall, in the second place, adduce specific facts bearing upon the slow rate of the increase of population amongst peasant proprietors.

The most casual observer must have remarked that the poorest classes in this country show the greatest imprudence with regard to marriage. As a general rule, a man does not marry, in the middle and upper classes, unless he believes that he shall, at any rate, be able to give his children as good an education as he has himself received, and be also able to place them in a social position similar to that which he himself occupies. The majority of men are accustomed to some particular style of living, and they generally refrain from marriage, if the increased expenses of married life would compel them to live in a manner which would not give them, what has been aptly termed, 'their habitual standard of comfort.' But the very poor are not influenced by any such considerations—they are not restrained from marriage by a desire to preserve a certain standard of comfort. What standard of comfort could the miserable cottiers of Ireland have had? Those who are accustomed to poverty do not attempt to exercise any restraint with regard to marriage; and amongst such persons, population is only restrained by the great mortality which prevails amongst the very poor, and more especially amongst their children. But when a labourer becomes a small landed proprietor he is at once influenced by the same motives which render the middle and upper classes prudent with regard to marriage. A person in the middle classes appreciates the value of the position he occupies; and he will not marry, if marriage will so impoverish him as to render it necessary for him to resign his position. A small landed proprietor must be quite as forcibly convinced of the superiority of his own position compared with that of a hired labourer; and he will be equally careful not to marry, if he considers that the expenses of a family would force him to give up this position, and would compel him to sell his land, and return to the ranks of the ordinary labourer. There is, moreover, abundant evidence to prove that peasant proprietors are acted upon by these motives. Sismondi, perhaps more

BOOK II.  
CH. VI.

*Improbability of this statement. Analogy of our upper classes.*

*Direct evidence. Sismondi's opinion.*

BOOK II.  
CH. VI.

than any other writer, has been impressed with the evils which result to the poor from over-population, consequent on imprudent marriages; and his strong advocacy of peasant properties is principally based upon the conviction that the system acts powerfully to restrain population. His testimony with regard to France is extremely important, because in France the system of peasant proprietorship is put to the most severe test, by the operation of the law which enforces the equal division of landed property. Sismondi says, 'There is no danger lest the proprietor should bring up his children to make beggars of them. He knows exactly what inheritance he has to leave them; he knows that the law will divide it equally amongst them; he sees the limit beyond which this division would make them descend from the rank which he has himself filled, and a just family pride, common to the peasant and to the nobleman, makes him abstain from summoning into life children for whom he cannot properly provide.'

*Mr Kay's  
account of  
Switzerland.*

Mr Kay, who may always be relied upon as a most accurate observer, shows that the prospect of acquiring landed property makes not only those who are engaged in agriculture prudent with regard to marriage, but also exerts the same influence upon the labourers who are employed in the adjacent towns. Speaking of Switzerland, he says, 'In some parts, as in the canton of Argovie, for instance, a peasant never marries before he attains the age of twenty-five years, and generally much later in life; and in that canton the women very seldom marry before they have attained the age of thirty. Nor do the division of land, and the cheapness of the mode of conveying it from one man to another, encourage the providence of the labourers of the rural districts only. They act in the same manner, though perhaps in a less degree, upon the labourers of the smaller towns. In the smaller provincial towns, it is customary for a labourer to own a small plot of ground, outside the town. This plot he cultivates in the evenings, as his kitchen-garden. He raises in it vegetables and fruit for the use of his family during the winter. After his day's work is over, he and his family repair to the garden for a short time, which they spend in planting, sowing, weeding, or preparing for sowing a harvest, according to the season. The desire to become possessed of

one of these gardens operates very strongly in strengthening prudential habits, and in restraining improvident marriages. Some of the manufacturers in the canton of Argovie told me that a townsman was seldom contented until he had bought a garden, or a garden and house, and that the town labourers generally deferred their marriages for some years, in order to save enough to purchase either one or both of these luxuries.' Mr Kay also proves, by precise statistical facts, that the peasant proprietors of the Prussian Rhine-land are extremely provident with regard to marriage, the ordinary age at which people there marry varying between twenty-five and thirty years. Numerous other facts might be adduced, to prove that a system of cultivation by peasant proprietors is in every respect most satisfactory in its social consequences.

In contrast with these results, the effects of our own system of land tenure may be correctly characterised in the following manner. The land is owned by comparatively few great landlords; it is occupied by tenants who have sufficient capital to cultivate large farms, and the labour is supplied by hired labourers, whose poverty is proverbial and whose industrial status is altogether unsatisfactory. When the soil of a country is owned and cultivated by peasant proprietors, the efficiency of production is not interfered with; and we believe it has been shown that the social and material condition of peasant proprietors is most satisfactory. Our own history, at least, proves that this class, formerly represented in this country by the ancient yeomanry, has ever been distinguished for its independence and its patriotism.

Whenever the system of peasant properties is advocated, it is important to state, in the most explicit manner, that it is not desirable to give artificial encouragement to the creation of small landed properties either by compulsory legislation or by grants of public money. Some people are never tired of repeating the misrepresentation that all who are dissatisfied with the English system of land tenure, are anxious to substitute for it the French law of compulsory subdivision of land. Neither the aggregation of land nor its subdivision ought to be enforced by legislation. If things were allowed to take their natural

*Effects of our own system contrasted with that of peasant proprietors.*

*It is not desirable to give artificial encouragement to the creation of small properties in land.*

BOOK II.  
CH. VI.

*The advantages of large and small farming may be combined.*

course, experience would soon prove which system of land tenure was the most beneficial to different countries. The objections to the creation of peasant properties by advances of public money will be dealt with in a future chapter<sup>1</sup>.

It has already been stated that in growing corn and some other products, large farming will become comparatively more advantageous than small farming, as machinery is more extensively used in agriculture. In order therefore to combine the peculiar advantages associated with large farming with those resulting from peasant properties, it may be anticipated that, in future, land will often be owned and cultivated by associations of labourers. The desirability of forming such associations will be shown in the chapter which describes the progress of co-operative societies.

A great extension of the system of small properties in land has resulted from the emancipation of the serfs of Russia which was carried out by the late Emperor Alexander. Previously the whole land of Russia was cultivated by serfs. These serfs were supposed to number about 22,000,000; their condition had for ages been that of semi-slavery. Each serf generally occupied a small portion of land; and instead of paying the proprietor of the soil any rent, the serf was bound to give him a certain proportion of his labour, and to render him various other services. As long as the serf fulfilled his obligations, he had a claim to the plot of ground which he was accustomed to cultivate. The landed proprietor was, however, permitted to exercise upon the serfs much of the tyranny with which, in feudal times, the lord oppressed his villeins. A Russian serf could not marry whom he pleased; labour was ruthlessly extorted from him by the stick and by other means of corporal punishment; and a trivial offence, perhaps never properly investigated, would often consign a serf to perpetual Siberian exile. The late Emperor of Russia made every Russian serf a free labourer, and gave him possession of two thirds of the small plot of land which he held upon the feudal tenure previously described. The time which has elapsed since this great scheme of emancipation was completed, is too brief to enable a judgment to be formed as to

*The present and former condition of the Russian serfs described.*

<sup>1</sup> See Chapter XI. Book II.



its results. It need cause no surprise or disappointment that so fundamental a change in the social and economic condition of a nation, should be accompanied by some temporary inconvenience, even to the emancipated serfs themselves. But all experience would lead to the conclusion that Russia will in a few years derive incalculable advantage from a reform which may convert millions of serfs into as many prosperous peasant proprietors. Nothing probably has so powerfully contributed to promote the progress of Prussia as the reforms which were carried out in her system of land tenure, at the commencement of the present century, by Stein and Hardenberg. A feudal tenantry was transformed into cultivating proprietors, who have probably more than any other class contributed to the social and material advancement of Prussia. But the extraordinary manner in which France has recovered her prosperity since the conclusion of her disastrous war with Germany, affords the most striking illustration of the wealth diffused among the agricultural classes by a system of peasant properties. Although the cost of the war to France including the indemnity to Germany was not less than 400,000,000*l.*, and although many extensive tracts of land were laid waste, yet a great portion of the money required for this enormous outlay was readily supplied from the accumulated savings of the French peasantry. English writers not unfrequently assert that French agriculture is inferior to that of our own country. It should however be remembered that whereas English farmers often cultivate the land with very inadequate capital, and English agricultural labourers have no capital at all, it has been shown that the French peasantry possessed great reserves of capital even after their country had been desolated by a destructive war. It has been well said that the French 'would save money out of wages that would scarcely suffice to keep English labourers off the pauper roll;' and there seems to be every reason to conclude that these habits of thrift which have been so deeply implanted in the French character have been powerfully stimulated by a system of land tenure which causes so large a proportion of the nation to have proprietary rights in the soil.

As offering a striking contrast to the description which

BOOK II.  
CH. VI.*The Irish  
Land Act,  
1881.*

has just been given of the French peasantry, we shall in the next chapter have occasion to refer to the deplorable effects which have been produced in Ireland by a bad system of land tenure. Hitherto almost every motive which could prompt the exercise of prudence and other industrial virtues has been absent from the life of the Irish peasant. A reckless increase of population has been encouraged, and in many districts the normal condition of the people has been one of distressing poverty. By the Irish Land Act of 1881, the Irish cultivators have had conferred upon them proprietary rights which they never previously enjoyed. If the productiveness of the land is increased through the application of their capital and skill, the advantage is now legally secured to them, and will no longer be taken from them in the form of increased rent. It may be reasonably anticipated that under the influence of this legislation, the Irish character will be gradually modified; for there can be no reason to suppose that the feeling of ownership will not produce upon the Irish much of the same kind of influence which it has been shown has been exerted upon the French and other people who enjoy proprietary rights in the soil.

## CHAPTER VII.

### METAYERS, COTTIERS, AND THE ECONOMIC ASPECTS OF TENANT-RIGHT.

A VERY considerable portion of the land of Europe is cultivated by metayers, and nearly the whole of the soil of Ireland before the famine in 1848 was occupied by cottier tenants. A metayer originally occupied the land on the condition that the landowner should receive one half the produce as his rent. The name is still preserved, although the terms of this tenancy have been much modified. Almost the whole of Tuscany is cultivated by metayers, who pay the landlord two thirds of the produce as rent; a metayer tenancy therefore now signifies, that a certain fixed portion of the produce should be paid as rent. Whether this portion should be one half, two thirds, or any other amount, seems chiefly to be regulated by the customs of different countries. Those who are only acquainted with English agriculture find it difficult to imagine the great extent of land which is cultivated by metayers. Before the revolution of 1790, nearly the whole of the land of France was rented by metayers, and even at the present time scarcely any other system of land tenure is known in Piedmont, Lombardy, Tuscany, and other parts of the Italian peninsula.

The cottier tenure is so anomalous that it is not easy to characterise it in a brief description. It may however be said generally, that a landlord takes from a cottier in the form of rent the utmost possible amount. The cottier has only left to him the means of bare subsistence. Cottier rents are nominal in pecuniary amount; because these rents are fixed so high, that it is impossible for the cottiers ever to pay them. The nominal amount of the

BOOK II.  
CH. VII.

*The me-  
tayer sys-  
tem.*

*The cottier  
system.*

BOOK II.  
CH. VII.

*Comparison of cottier and metayer systems.*

*The metayer system exhibits the control of competition by custom.*

rent often exceeds the whole produce which the land would yield. These tenants, therefore, are perpetually in arrear, and this gives the landlord the means of appropriating to himself the whole advantage of any unusually good crops.

We have classed metayers and cottiers together, because the same disadvantages in part belong to these two systems of land tenure; but the results which arise from these tenures offer in many other respects a striking contrast.

The metayer tenancy illustrates in a very remarkable manner the control which custom exerts over competition; for the fact that metayer tenure prevails throughout a country plainly indicates that many landlords sacrifice their own interests, in order to obey a custom; since it can be readily shown, that the rent of land, if regulated by competition, would in the majority of cases greatly exceed the metayer rents which are paid. And this will be true whatever may be the portion of the produce at which the metayer rents are fixed; for instance, in Tuscany two thirds of the whole produce are apportioned to the landlord. This is probably the highest metayer rent which is paid. The fertility of the soil of Tuscany must be such, that one third of the produce which is yielded by any land which is cultivated suffices to pay the expenses of cultivation, and also remunerate the tenant for his labour. If one third of the produce was not sufficient to do this, the land would be cultivated at a loss; since it is supposed that two thirds are allotted to rent. But if one third of the produce yielded by inferior land is sufficient for the purposes just mentioned, then it is manifest that one third of the produce yielded by more fertile land would more than suffice, according to the rates of profit and wages current in the country, to remunerate the tenant for the capital he expends, and for his labour of superintendence. But when rents are regulated entirely by competition, a farmer cannot hope to obtain more than the average rate of profit, and, in such a case, the farmer who cultivates productive land is not in a better position than a farmer who occupies land of inferior productiveness. The landlord is able to appropriate to himself the whole advantage of the increased fertility; since, when rents are regulated by

competition, they are adjusted in proportion to the fertility and other advantages which a particular farm may possess. When, therefore, metayer rents are paid, the tenants who happen to occupy the most productive land possess a beneficial interest, the value of which is proportioned to the productiveness of the soil. We will illustrate our meaning by an example. Let it be supposed that there are two farms which vary greatly in productiveness, but in the cultivation of which the same amount of capital is invested; this amount being 2000*l*. Let it be further assumed that the ordinary rate of agricultural profit is ten per cent., and that therefore these farmers will be satisfied with a profit of 200*l*. The annual expense of cultivation, including wages, seed, wear-and-tear of implements, &c., may be assumed to be in each farm 800*l*. Let the annual amount of the produce of the two farms be respectively 1800*l*. and 1500*l*. If, therefore, the two farms paid rents of 800*l*. and 500*l*. respectively, there would in each case be 1000*l*. left to the farmers; this would replace their capital, and leave them 200*l*., or a profit of ten per cent., as a remuneration for their own labour and capital. These farms therefore, if the rents were regulated by competition, would pay rents of 800*l*. and 500*l*. respectively. We will now examine what would occur if these two same farms, cultivated by the same amount of capital as before, paid a metayer rent of one third the produce; the produce from the two farms above supposed being 1800*l*. and 1500*l*., the metayer rents would consequently be 600*l*. and 500*l*. respectively. The worse farm of the two therefore pays the same rent as before, but the better farm pays a rent of 200*l*. less; therefore the metayer tenant who occupies the more fertile farm would have a beneficial interest which might be estimated at 200*l*. per annum. In any special case the amount of this beneficial interest depends upon the productiveness of the land. The purport of this example has not been to prejudge the question, whether or not, under a metayer tenure, the landlords receive smaller rents, and the tenants are better off than if they occupied the land upon a rack-rent. Such a question can only be determined by considerations upon which we will proceed to remark. But the object of the above example is to

BOOK II.  
CH. VII.

*Different profits of farmers*

*under the rack-rent and metayer systems.*

BOOK II.  
CH. VII.

*Various  
arrange-  
ments of  
the meta-  
yer system.*

show, that when rents are regulated by a custom which fixes them at a certain definite proportion of the produce, then the rent paid by the most productive soils is less in excess of that paid by the less productive than it would be if both were let on rack-rent.

The arrangements connected with the metayer tenure vary greatly in different countries. The landlord almost always supplies a portion of the capital. Sometimes he provides the stock, the tenant buying the seed and implements. In Piedmont, the landlord pays the taxes and repairs the buildings, and the tenant provides stock, implements, and seed. According to Arthur Young, the conditions of the metayer tenure in France before the revolution, were far more complicated and variable than at the present time. In Champagne, the landlords commonly find half the cattle and half the seed, and the metayer, labour, implements and taxes: but in some districts the landlord bears a share of these. In Roussillon, the landlord pays half the taxes; and in Guienne, from Auch to Fleuerne, many landlords pay all. Near Aguilon, on the Garonne, the metayers furnish half the cattle. But the metayer tenures of all countries are controlled by the principle, that the conditions of the tenure are arranged according to an undeviating usage. Thus, if it is customary in Piedmont that the landlord should pay the taxes, repair the buildings, and receive two thirds of the produce as rent, it would be an unheard-of thing for a metayer tenant to have his rent raised to three fourths of the produce, or to be displaced from his occupation, because some other person offered the landowner a higher price for the use of the land. The whole tone of public feeling would prevent the landlord accepting such an offer; in fact, persons would be restrained from making the offer by feelings similar to those which prevent a barrister publicly announcing that he will hold briefs at one half the customary fees. Land is often retained for many generations in the same family, by metayer tenants; they almost regard the land as a patrimonial possession, because they believe that they will not be displaced from its occupation, and that the conditions on which they hold it will remain unchanged. Metayer tenants therefore may justly, in a modified sense, regard the land as

*Difference  
between  
metayers*

their own property, and consequently to this tenure belong, in part, those advantages which, as shown in the last chapter, result from small properties when cultivated by their owners. We say these advantages only belong in part to the metayers, because many of those motives upon which depend the advantages of peasant properties only act with limited effect in the case of a metayer tenure. For instance, a metayer feels that he has a claim to only a portion of the fruits of his labour; if he is more industrious, and his land is made more productive, the landlord takes a portion of this increased produce, therefore the feeling of self-interest which stimulates the active and intelligent industry of the peasant proprietor cannot act with equal force upon the metayer. But a more serious objection than that just noticed is that the metayer system often discourages the application of capital, both by the landlord and by his tenant. For instance, if the land is drained at the expense of a metayer landlord, whose rent is one third of the produce, the land is of course made more productive, but the landlord only secures one third of the increased produce; the remaining two thirds are gratuitously given to the tenant, who has borne none of the expense. If, on the other hand, the land was drained at the sole cost of the tenant, he, in a similar manner, will only obtain two thirds of the advantage; the remaining one third would be gratuitously presented to the landlord. Whenever the metayer system is inefficient, it is no doubt principally due to this cause; in fact, the strongest opponents of metayer cultivation most strenuously insist on the great want of capital which it exhibits. This objection may be, and is, no doubt, overcome in those countries where the metayer farming is most satisfactory; for when the application of capital is required, there is no reason whatever why the metayer landlord and his tenants should not equitably arrange between themselves the particular amount which each party should respectively spend. If the metayer rents were one third of the produce, then it might be equitably arranged that one third of the cost of such an useful improvement as drainage should be borne by the landlord, and the remaining two thirds by the tenant. The terms of the contract might be varied under different

*Inefficiency of metayer system generally due to want of capital.*

BOOK II.  
CH. VII.

circumstances; the tenant ought not to pay so much, if there was any chance that his term of occupation would be limited. Arrangements similar to these are frequently made between English landlords and their tenants, when money is borrowed from the Land Improvement Companies, for the purpose of carrying out works of permanent utility. Although it has been pointed out that a metayer might not have the same motive as a peasant proprietor has to improve the land by incessant industry, and by judicious application of capital, yet on the other hand, it must be remembered that the labour of the metayer will be, in all probability, much more efficient than that of our own agricultural labourers, who simply work for hire; they have no interest in the work in which they are employed, they have no motive but to labour with just sufficient skill and regularity to avoid being dismissed. To them it is a matter of little moment whether their employer's profits are large or small. The indolence and carelessness which are thus engendered cause a loss to an employer of hired labour which is rarely adequately appreciated. In metayer cultivation, little hired labour is employed. A metayer generally occupies no more land than he can himself cultivate with the assistance of his family. He therefore, far more than the hired labourer, is stimulated to be industrious, because the profits which his exertions produce are at any rate in part his own.

*Contradictory opinions on the metayer system due to variety of customs in different countries.*

The most contradictory opinions with regard to the results of metayer farming have been expressed by those who have observed it in various countries. These different results may, no doubt, be attributed to the particular customs which prevail with regard to the metayer tenures in different countries. Some of these customs have already been noticed. We believe that the efficiency of the metayer tenure depends on the extent to which the customs of a country facilitate the application of capital to the land. The efficiency of the metayer cultivation also, in a great degree, depends upon the security which the tenant has that he shall not be disturbed in the possession of his holding. It is hopeless to expect that there ever can be good farming when the cultivator is a mere tenant at will, who is ever liable to have his rent raised in pro-



portion to the improvement produced on the land by either his skill or his capital. The evil has been partly remedied in England by the leasing of farms at a rack-rent for a period of years which varies from seven to twenty-one; but, even under this system, enterprise on the part of the farmer is much discouraged; for it too frequently happens that his rent will be raised at the expiration of his lease if he has made his farm more productive. This evil is remedied by the metayer tenure; for, as we have before remarked, a metayer tenant is seldom displaced, and a rent, which is fixed at a certain definite portion of the produce, gives the tenant a beneficial interest in the increased productiveness of the soil.

We will now proceed to consider how far these general *à priori* remarks upon metayers are corroborated by the facts which have been derived from experience and observation. Most English writers on this subject, including Arthur Young, Mr McCulloch, and Mr Jones, have been unsparing in their denunciations of the metayer system; they assure us that it causes the land to be wretchedly cultivated, that it deprives the landlords of half the rent they might obtain under a different tenure, and that it makes the metayers themselves more impoverished and more wretched than ordinary labourers. But these writers have principally formed their opinions by observing the condition of the French metayers. French agriculture does not, however, afford a fair test of the effects of metayer farming; for it there labours under many disadvantages which do not operate in other countries. Mr Jones, for instance, supports his opinion by quoting Turgot; but Turgot spoke of the country before the French revolution. Then the exclusive privileges of the French nobility exempted them from direct taxation, and the most burdensome imposts were thrown entirely upon the metayer tenants. But in Piedmont it is an essential condition of the metayer tenure that taxes should be paid by the landowner. In fact, one passage in Arthur Young's own work is sufficient to explain all the defects of the French metayer agriculture. He says that in Limousin and Angoumois (the provinces which Turgot administered, and from which he formed his impression of the metayer system) 'the metayers have no virtual fixity of tenure: whereas

*Unsatisfactory nature of metayer tenure in France.*

BOOK II.  
CH. VII.

*Good results of the metayer tenure in Lombardy,*

the metayers of Italy claim fixity of tenure as an essential condition of their contract.' 'Again, in Limousin,' Arthur Young tells us, 'the metayers are considered as little better than menial servants, removeable at pleasure, and obliged to conform in all things to the will of the landlord.' Under such circumstances the system must in every respect work badly, and the metayers themselves must inevitably be poor and wretched.

The metayer tenure of Italy strikingly contrasts with that of France, both in its results and in the nature of the contract. Almost the entire land of Lombardy and Piedmont is cultivated by metayers. The excellence of the agriculture in these countries is proverbial; in fact it is not surpassed in any country in the world. This excellence is not due to any peculiar natural advantages. The soil of Piedmont is scarcely of average fertility, and Lombardy was for years exposed to intolerable oppression by its Austrian rulers. Bad government is usually supposed to cause the impoverishment of a country. The Lombard system of agriculture must, therefore, have been singularly efficient; for Lombardy continued one of the best cultivated and most productive countries during the whole period through which it was oppressed by Austrian tyranny. In Lombardy and Piedmont the land is not so much subdivided as in France; a metayer farm seldom exceeds sixty, but is never less than ten acres. The farm buildings are models of convenience and comfort. Competent observers affirm that nothing can exceed the skill and economy displayed in the management of the land. Chateaufieux, who is an excellent authority, says—'In Piedmont and Lombardy the rotation of crops is excellent. I should think no country can bring so large a portion of its produce to market as Piedmont. Though the soil is not naturally fertile, the number of cities is prodigiously great. The agriculture must therefore be eminently favourable to the net, as well as the gross produce of the land.' Again, he remarks—'In no part of the world are the economy and management of the land better understood than in Piedmont, and this explains the phenomenon of its great population and immense export of provisions.'

*and in the valley of the Arno.*

In the valley of the Arno, the metayer farms are much smaller than in Piedmont and Lombardy, their size vary-

ing from three to ten acres; and yet, in spite of this great subdivision, numerous travellers have described the valley of the Arno as cultivated with singular care and skill, and as presenting a most prosperous appearance. The holdings are so small that the homesteads of the metayers are situated at a short distance from each other. We are assured that these homesteads appear to be most neatly kept and have a thoroughly comfortable aspect, and the metayer peasants in this valley are well and tastefully dressed. It is true that English writers have said, If you enter the house of a metayer, he does not seem to live as much at his ease and to possess the same luxury as the farmers of other countries; but it is most unreasonable to make such a comparison. A metayer in the valley of the Arno, who cultivates his five or six acres of land, ought not to be contrasted with our own farmers who possess large capital; such a metayer is essentially a labourer, he cultivates the land without the assistance of hired labour; if therefore we wish fairly to compare the condition of an agricultural population in a metayer country with its condition under a different system of land tenure, we ought to contrast the metayer not with capitalist farmers, but with agricultural labourers, working for hire. If this comparison is made, there certainly can be no doubt that the metayers of Italy in their social and economic condition are in every respect greatly superior to our own agricultural labourers.

Chateauvieux bears important testimony to the beneficial influence exerted upon the landlords by a metayer tenure. Nothing, in fact, seems to enforce with so much practical effect the important maxim, that property has duties as well as rights. The following very intelligent remarks are made by Chateauvieux: 'The metayer system constantly occupies and interests the proprietors, which is never the case with great proprietors, who lease their estates at fixed rents. It establishes a community of interests, and relations of kindness between the proprietors and the metayers—a kindness which I have often witnessed and from which result great advantages in the moral condition of society. The proprietor under this system, always interested in the success of the crop, never refuses to make an advance upon it, which the land promises to repay with

*Kindly-  
feeling be-  
tween  
landlord  
and tenant  
under the  
metayer  
system.*

interest. It is by these advances and by the hope thus inspired, that the rich proprietors of land gradually perfect the whole rural economy of Italy. It is to them that it owes the numerous systems of irrigation which water its soil, as also the establishment of terrace culture on the hills—gradual but permanent improvements which common peasants, for want of means, could never have effected, and which could never have been accomplished by the farmers, nor by the great proprietors who let their estates at fixed rents. The metayer system therefore forms of itself that alliance between the rich proprietor, whose means provide for the improvement of the culture, and the metayer, whose care and labours are directed, by a common interest, to make the most of these advantages.’ Sismondi, who was a resident metayer landlord, speaks in warm approval of the system. He proves by the most definite facts that under the metayer tenure the land is well cultivated, and that the condition of the metayer tenants is in every respect most satisfactory.

*Impracticability of introducing this system into England.*

The object we have had in view in making these remarks upon the metayer tenure has not been to propose its introduction into England; this, even if desirable, we well know is impossible, for it is the fundamental principle of this tenure, that the rent of land should be regulated by custom and not by competition. But custom is gradually exercising less influence upon the commercial arrangements of our own country; and rents, profits, and wages are each year apportioned more completely in accordance with competition. We have, however, been chiefly induced to make these remarks, because the prejudice of English writers against every system of land tenure different from our own has been so great, that it is commonly assumed that the metayer tenure produces unmixed evils in the countries where it exists, and that these countries can never be greatly improved until it is replaced by a system of cultivation resembling our own. The facts just mentioned are sufficient to disprove such an opinion, for we believe the following propositions have been established:—that the metayer system of cultivation is in many instances extremely efficient;—that the metayer tenants are generally in a condition greatly superior to that of our own day-labourers;—and, that the

metayer landlords are often induced to perform those duties pertaining to landed property which are too frequently neglected by the landowners of our own country. Without wishing, therefore, to advocate any Utopian scheme for the introduction of this tenure into England, we still think it very important that its merits as well as its defects should be known.

It has already been stated that the cottier and metayer tenure will be described in the same chapter, because the former system of cultivation exhibits none of the advantages which belong to the latter, while it possesses all its defects in an aggravated form. The cottier tenure has existed on a far more extended scale in Ireland than in any other country, for before the famine of 1848 nearly the whole of the land in Ireland was cultivated by cottiers, and even at the present time this form of tenancy still exists. The cottiers of Ireland may be described as peasant cultivators; for they rent the land directly from the landowner, and cultivate it by their own labour. The produce of the land is, therefore, as in the case of the metayer tenure, entirely divided between the landlord and the cultivator; but there is a fundamental difference between the metayer and the cottier tenure. The rent which the metayer pays is definitely fixed by custom; on the other hand, the rent which the cottier pays is entirely regulated by competition. Custom also generally gives to the metayer fixity of tenure, but no such fixity of tenure can be claimed by cottiers; they compete against each other for the possession of a plot of land, and the landlord is only anxious to obtain those tenants who will give him the highest rents. Now the rack-rents, which are paid by the large capitalist farmers in England, are regulated by competition; and it may therefore be asked—Can there be any essential difference between rack-rents and cottier-rents? There is this essential and very important difference; a rack-rent is determined by the competition of capitalists, whereas a cottier-rent is determined by the competition of labourers. The consequences of this distinction we will proceed to explain. When farmers apply large capitals, as in England, to cultivate their farms, they expect to obtain the ordinary rate of profit for their capital, and a reasonable remuneration for their labour of super-

BOOK II.  
CH. VII.

*Cottier  
tenure.*

*Ireland.*

*Cause of  
the difference  
between  
rack-rents  
and cottier-rents.*

intendence; it is, therefore, quite impossible that the rent paid by English farmers could long continue so high as to prevent this ordinary rate of profit being received, for if this were so, capital would not continue to be invested in farming, but would inevitably be applied in other employments, where the ordinary rate of profit could be secured. Rack-rents, therefore, are kept, as it were, in a position of stable equilibrium by the competition of capital; for competition of capital signifies that men are eagerly anxious to invest their capital to the greatest possible advantage; and consequently, a rack-rent is in this manner so adjusted, that farming is, on the average of years, neither much more nor much less profitable than other occupations. In the case, however, of a cottier tenancy, it is population, and not capital, which competes for the land. The Irish cottiers, for instance, are miserably poor peasants, who possess no capital, except one or two tools and the scanty furniture of their wretched hovels. When, therefore, they compete for a plot of land, it is absurd to suppose that they calculate the rent which they are willing to pay, by considering whether their capital would secure a higher rate of profit in some other investment; they are themselves fit for no other employment, and all the capital they possess would scarcely realise more than a nominal sum.

*Disastrous effects of the cottier system upon Irish labourers.*

To a cottier, the possession of a plot of land is not a question of profit, but of subsistence; and consequently, in any district, the more numerous the peasantry the more actively will the land be competed for. The peasantry of Ireland were so long accustomed to poverty, that they were satisfied if they could occupy a plot of ground, and obtain from it just sufficient food to provide a bare subsistence; their habitual standard of comfort was almost inconceivably low; every adult peasant married, and a want of food, with its consequent diseases, was the only check upon population. Such being the condition of the Irish peasantry, it may be naturally supposed that cottier rents were forced up to their highest possible point; the cottier could only obtain just sufficient to live upon, and the whole remaining produce was paid to the landlord as rent. The pecuniary amount of these cottier rents may be regarded as merely nominal; a peasant was

so anxious to obtain a plot of ground, that he cared not what rent he offered for it; he well knew that the landlord, whatever was the nominal amount of rent, must leave him sufficient to live upon. And thus we learn, from the evidence taken before Lord Devon's Commission, (1845) that the nominal amount of many of these cottier rents exceeded the whole produce which the land yielded, even in the most favourable season. The cottier was consequently in constant arrear to his landlord; the landlord had of course a legal right to distrain for the rent, but such a remedy was of no value, for the whole property of the cottier was scarcely worth seizing. Neither could the landlord gain much by resorting to eviction, for the evicted tenant would only be replaced by another tenant of the same character, whose arrears of rent would accumulate with similar rapidity. Although eviction was a legal right of the landlord, yet he was restrained from exercising this right by the powerful motive of personal safety. Assassination was the retribution with which the cottiers of Ireland not unfrequently punished an evicting landlord. The economic condition of no other country has ever been so unsatisfactory as was the condition of Ireland under the cottier tenancy; for the cottiers, having taken the land at a rent which it was impossible for them to pay, had no motive to be industrious; if by skill and labour the land was rendered more productive, the increased produce was absorbed in the rent of the landlord. The rents were, in fact, fixed so high, that whether the seasons were favourable or not, whether the land was well or badly cultivated, the cottier tenants could never expect to obtain for themselves any more than a bare subsistence; hence it has been aptly remarked, that the Irish cottiers were the only people in the world whose condition was so deplorable that they gained nothing by being industrious. No scheme could possibly be devised which would act more effectually to impoverish the people, and throw the land into the most wretched state of cultivation. The progress of Ireland cannot be marked by a surer sign than by the gradual abolition of the cottier tenure.

In Ireland there was also a subsidiary kind of tenure, termed conacre. If a landlord required any labour to be done on his estate, it was a frequent practice for him to

BOOK II.  
CH. VII.

*Assassination.*

*The direct tendency of the cottier system is to impoverish the people and lower the cultivation.*

*Conacre.*

BOOK II.  
CH. VII.*A feudal  
tenure.*

pay the labourers he employed, not by money, but by giving them a plot of manured ground rent free; the plot thus held, on the condition that the tenant should give the landlord so much labour, was termed *conacre*. This tenure was feudal in its character; for during the middle ages, a great portion of the cultivated land was granted to tenants on the condition that they should be bound to perform certain personal services for the landowner, or, as he was then termed, the lord. These personal services consisted either in providing the lord with mere ordinary manual labour, or else with men and weapons for warlike purposes.

*The Ulster  
tenant-  
right.*

In Ulster a peculiar kind of land tenure prevails, in consequence of the existence of a particular form of tenant-right. It is ordinarily supposed that tenant-right represents the compensation which is paid to the tenant by the landowner for improvements carried on by the tenant's capital and skill, and the effects of which are not exhausted at the time when the tenant relinquishes his occupation. The Ulster tenant-right is something very different, for it represents a sum sometimes amounting to as much as the value of the fee-simple of the land; this sum is paid for the goodwill of the farm, by the incoming to the outgoing tenant. Side by side with this tenant-right there also exists in Ulster the tenant-right first described. For if an Ulster tenant relinquishes his occupation to his landlord he obtains from the landlord compensation for unexhausted improvements. The Ulster tenant-right previous to 1870, when the Irish Land Act was passed, had no legal sanction; it simply existed as a custom, which was, however, in almost every instance, implicitly obeyed. This may be regarded as a remarkable example of the extent to which custom may control commercial transactions. The large sum which is paid by the incoming to the outgoing tenant represents partly a premium for goodwill, and partly compensation for unexhausted improvements.

*The Irish  
Land Act  
of 1870.*

The disadvantage associated with the Ulster custom is that it deprives the incoming tenant of a portion of his capital at a time when he most needs it for his farm. But on the other hand it has this important advantage, that it practically gives security of tenure, and therefore



encourages the tenant to develop the resources of his farm to the utmost. It is obvious that the financial result of the arrangement is that the tenant pays a smaller rent in consequence of the sum he has paid as goodwill upon entering the farm. The Irish Land Act of 1870, besides giving legal sanction to the Ulster tenant-right, secured small tenants compensation upon arbitrary eviction and conferred upon all tenants compensation for unexhausted improvements.

Soon after this Act was passed it was found that although it secured to the tenant, on eviction from his holding, compensation for unexhausted improvements, he might be deprived of a large portion of the advantage of these improvements, which are almost invariably in Ireland, carried out by his own capital and skill, by the rent being raised in proportion to the extent to which the land had been improved. The strong hereditary attachment of the Irishman to his holding and the limited extent to which other industries than agriculture exist in Ireland, rendered compensation, which could only be claimed on cessation of the tenancy, of comparatively little value to the great body of Irish tenants. The Irish Land Act of 1881 was passed chiefly with the object of remedying this defect. This Act is based upon a principle which probably nothing but the exceptional condition of Ireland and the peculiar nature of the tenure which had always obtained there, could justify. It gives the tenant the power to appeal to a Land Court to fix the rent; the rent so fixed cannot be changed for fifteen years, at the end of which time it may be readjusted by the same agency for a similar period. The interest of the tenant in his holding which is thus created can be freely sold, subject to a right of preemption conferred upon the landlord. It is obvious that the tenants thus possess permanence of tenure subject to a revision of rents every fifteen years.

Soon after the Irish Land Act of 1870 was passed, it was proposed to extend some of its provisions to England and Scotland. In 1875 the Agricultural Holdings Act was passed. This measure is based upon the principle that capital which is invested by the tenant in the improvement of the land is his own property, and that when he leaves his farm he is entitled to claim from his landlord

BOOK II.  
CH. VII.

*Shortcomings of the Act of 1870.*

*The Irish Land Act of 1881.*

*Tenant-right in England.*

BOOK II.  
CH. VII.

*The Agricultural Holdings Act 1876.*

compensation for any unexhausted improvements which have been effected by the tenant's capital. The measure also recognizes the right of the landlord to claim from the tenant compensation, if the land has been injured by bad farming. Although, however, these claims for compensation respectively possessed by the tenant and landlord have thus received a legal recognition, yet the very unusual course was adopted of allowing the measure to be made inoperative in any instance where either the landlord or the tenant should declare his wish not to come under its provisions. This power to contract themselves out of the bill has been so largely used as to render the measure almost inoperative. The chief reason put forward in favour of the permissive character of the Act was the importance of maintaining freedom of contract. If the question is regarded as one which only concerns landowners and tenants, it no doubt may be fairly urged that a tenant ought to be freely permitted to make whatever terms he likes with the landowners. If he agrees to rent a farm on terms unfavourable to himself, he has no more right to look to the State to protect him against the consequences of his own imprudence than has the occupier of a house if he agrees to pay an excessive rent for it, or a trader if he purchases commodities at a price so excessive as to be ruinous to himself. The chief justification, however, for imposing legal regulations upon the letting of land, which would be indefensible in the case of other mercantile transactions, arises from the fact that the whole community is vitally interested in making the land as productive as possible. If the buyer of a commodity pays an extravagant price for it, the loss which he suffers represents so much gain to the seller. It is simply a transfer of wealth from one person to another in which the general public are not interested. But if the cultivators of land agree to rent it on conditions which can be proved to cause a great diminution in its productiveness, then the entire community is injured, because all that is raised from the land becomes dearer, if inferior cultivation lessens its productiveness. Nothing is more certain than that the investment of capital in the improvement of the land must be most seriously impeded as long as the cultivator has no security that the advantage resulting from the expenditure of his

capital will not be appropriated by another. A tenant virtually spends his money not for his own advantage but for the advantage of the landowner if he can be arbitrarily evicted without receiving adequate compensation for improvements. From such considerations it inevitably follows that land will not, as a general rule, be properly cultivated if, as is the case in our own country, those who rent it seldom possess any security that they will be able to claim compensation for unexhausted improvements. The correctness of this conclusion is repeatedly confirmed by those who are intimately acquainted with agriculture. Lord Leicester, a large landed proprietor and a well known agriculturist, has said that after having travelled through a considerable portion of England and Scotland, and having carefully observed the farming, he has arrived at a very positive conclusion, that the produce of the land might be nearly doubled if our present system of agriculture were improved by the application of a greater amount of capital to the cultivation of the land. A similar opinion has been expressed by Lord Derby<sup>1</sup>. The correctness of these conclusions receives an important confirmation from the excellent farming which prevails in parts of Lincolnshire, where a system of tenant-right is maintained by custom.

The prohibition by law of the letting of land upon conditions which effectually prevent the investment of an adequate amount of capital in agriculture, is to be defended on the ground, not that it will give protection to a special class, but that it will powerfully promote the general well-being of the nation. It can in fact be easily proved by a simple example that farmers are not more interested than are the labourers and the general public in obtaining for the cultivator greater security for the capital which he invests in the improvement of the land. Suppose, for instance, that a farmer has a capital of 6000*l.* employed in his business, and that he would be willing to increase this capital by 4000*l.* if a measure of tenant-right gave him adequate security for the capital so invested. Considering the great amount of English capital which is embarked in foreign investments, it may be fairly assumed

*Instances  
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freedom of  
contract is  
justifiable.*

<sup>1</sup> Much valuable information bearing on this and other points connected with English farming, is contained in the evidence given before the Royal Commission on Agriculture which reported in 1882.

BOOK II.  
CH. VII.

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that the whole of this additional capital, or at any rate a considerable portion of it, is withdrawn from some foreign investment, and consequently so much more capital is employed in English farming without in any way diminishing the capital employed in other branches of English industry. The 4000*l.* might, for instance, have been lent to the Russian government to construct a military railway; and upon such an investment an interest of 5 per cent. would be yielded. It is usually supposed that a profit of 8 per cent. is a fair return upon capital employed in English farming. It is therefore evident that the gain to the farmer, from employing this 4000*l.* in his own business, would be represented by the difference between 5 per cent. and 8 per cent., which on 4000*l.* is 120*l.* a year. This, however, is only a small portion of the whole advantage resulting from the change. The chief part of it will in reality be gained by the labourers and the general public. We have ascertained, after inquiry from practical farmers, that at least 600*l.* out of every 4000*l.* of additional capital employed in the manner described would be used in paying additional labourers; the demand for labour would therefore *pro tanto* increase, and the wages of agricultural labourers would advance. We have also ascertained that the application of this additional capital would probably increase the produce of the land by at least 800*l.* a year. This additional produce would be so much added to the food supplies of the country. Hence it follows that whereas the farmer gains 120*l.* a year, the labourers would have 600*l.* a year more distributed amongst them in wages, and the land would yield annually for the community 800*l.* worth of additional food. It is, moreover, to be borne in mind that a part of the additional capital would be employed in the purchase of implements, in the erection of new buildings, etc., and an important stimulus would thus be given to various branches of industry besides agriculture. In the example just given, it has been supposed that the additional capital employed in the cultivation of the land had been previously invested in a high class foreign security; in order, however, to obtain an adequate idea of the economic gain which might result to the nation if greater security were given to capital invested in the cultivation of the land, it is necessary to bear in mind

that at the very time when English land may be said to thirst for more capital as much as a dry soil thirsts for rain, vast sums of English capital are annually wasted in a countless number of worthless and fraudulent foreign investments, such as the loans of bankrupt and repudiating states.

In the foregoing example great stress has been laid on the benefit resulting to the country from increasing the productiveness of the soil, because there is no conclusion which, in a treatise on Political Economy, has to be brought into greater prominence than that the increasing dearness of food is the chief obstacle which impedes the prosperity of a country such as England, the population of which, already dense, is still rapidly advancing. We have in previous chapters explained the powerful influence which is thus exercised in reducing the remuneration of labour and in diminishing the rate of profit. So many other serious consequences result from the increasing dearness of food, that it is evident a most powerful agency will be brought into operation to promote national prosperity, if the productiveness of the soil were increased in a degree even approximating to what has been anticipated by the authorities just quoted. It is estimated that the present annual value of the agricultural produce raised in the United Kingdom is about 260,000,000*l.*; and it has, as we have seen, been stated that with a better system of farming, this annual produce might be greatly increased.

Considerations such as those which have been just adduced constitute in our opinion the strongest justification for regulating by law the relations between landlord and tenant. A measure of the character of the Agricultural Holdings Bill now (1883) before Parliament is too often regarded as if the chief benefit it would confer would be to give adequate protection to the tenant. There is much force, we cannot deny, in the plea that can be urged on the opposite side that farmers, just in the same way as other traders, ought not to look to the State to protect them against the consequences of improvident bargains which they have voluntarily entered into. It is, however, as we have shown, of the utmost importance to the general public that greater security should be given to capital invested by the tenant in the improvement of

*The Agricultural Holdings Bill 1883.*

the soil. This security, which the Act of 1875 from its permissive character failed to give, will, we believe, be conferred by the Agricultural Holdings Bill now before Parliament, and it may therefore be confidently anticipated that the passing of the measure will not only be highly advantageous to all connected with agriculture, but also productive of lasting benefit to the rest of the community.

## CHAPTER VIII.

### NATIONAL EDUCATION AND OTHER REMEDIES FOR LOW WAGES.

THE great mass of the labouring population, in even the most prosperous and civilized countries, is so poor, that a philanthropic sympathy is excited, and remedies are constantly being proposed with the object of improving the condition of the poor. The practical utility of Political Economy cannot be better illustrated than by applying its principles to test these remedies. When this is done many of them will prove to be impracticable or illusory; it will be shown that they not unfrequently cause the opposite effects to those which they are intended to produce, and increase the poverty they seek to alleviate. Strikes, trades-unions, and cooperation are the remedies for low wages in which at the present time different sections of the labouring class place most faith. We shall therefore devote a separate chapter to the influence which may be produced by strikes, trades-unions, and cooperative societies. There is also a growing tendency to rely, for the amelioration of the condition of the poor, upon various schemes which involve State aid and State machinery. Many of these assume the character of State socialism and it will be desirable also to devote a separate chapter to this subject. The scheme known as the Nationalization of the land, has at times received a great deal of popular support. But before discussing these subjects, it will be well to consider some other remedies, in the efficacy of which many people have at different times expressed great confidence.

Our own statute-book proves that the attempt has frequently been made to regulate wages by law. The

BOOK II.  
CH. VIII.

*Remedies  
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*Attempts to  
regulate*

BOOK II.  
CH. VIII.

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most famous of these acts, which almost invariably were framed in the supposed interest of employers, is the Statute of Labourers passed in 1350. This act was intended to prevent the great rise in wages which had taken place in consequence of the scarcity of Labour resulting from the devastations of the plague known as the Black Death. Not only did it fix the rate of wages but it also forbade the labourer to leave the parish where he lived in search of better paid employment.

Laws which attempt to regulate wages are always either futile or mischievous. It will be necessary to examine several cases in order fully to elucidate the effects of legislative interference with wages. In the first place, suppose a general law were passed enacting that wages in every employment should be raised 20 per cent. If employers were unable to repay themselves for the higher wages they were compelled to give, by a rise in the price of commodities, it is evident that this advance in wages would simply represent so much taken away from profits. The immediate consequence of this would be a contraction of business. Capitalists would find it less profitable than heretofore to invest money in home industry. A larger portion of the national capital would be exported; a great advantage would be given to our foreign competitors in every branch of industry. They would undersell us even in our own markets; our foreign and our home trade would be most seriously crippled. The result therefore of any attempt to secure a general advance in wages by law would be mischievous to the whole nation and especially disastrous to the labourers themselves. It is also to be borne in mind that if any temporary advantage which the labourers might gain by such an enforced rise in wages, should stimulate an increase of population, there would after a few years be an additional number of labourers competing for employment, and thus the condition of the working classes might ultimately be made considerably worse than it was before.

It may be thought that these evil consequences would not ensue if a law to regulate wages only affected some special trades, in which all are ready to admit that wages are too low. In order to examine a case which seems to be the most favourable for Government interference, let it



be assumed that a law is passed declaring that no able-bodied agricultural labourer shall receive less than fifteen shillings a week. It can be urged that no man ought to receive less than this amount; and that in fact, fifteen shillings a week is the minimum upon which a man with a family can maintain himself in full health and vigour. It is probable that employers would be benefited if the wages of the worst-paid labourers were raised. An opinion has in fact been already expressed, that farmers who only pay their labourers eleven or twelve shillings a week act as unwisely as if they were to give an insufficiency of food to their horses. Facts indisputably demonstrate that the labour which receives the lowest remuneration is often not the least costly. It would therefore seem that a law fixing the minimum of agricultural wages at fifteen shillings a week would not only confer a boon upon the labourers, but would inflict no loss upon their employers. Such might be the immediate effects of this legislation; but unless this advance in wages were accompanied by a corresponding elevation in the social and moral condition of the labourer, earlier and more improvident marriages would indubitably ensue. An increase of population would thus be artificially stimulated; a legislative discouragement would moreover be given to emigration; in a few years the supply of labour would be unnaturally increased; nothing would at the same time have occurred to augment the demand for labour. Hence the ultimate effect of legislative interference with wages even in the most favourable case that can be supposed would be to produce an excess in the supply of labour when compared with the demand for it; or, in other words, there would soon be a large class unable to obtain employment who would have to be supported by parochial relief.

It may be said that no one at the present time seriously proposes to ask Parliament to regulate wages. Such a request is now never directly made; but demands are constantly put forward which plainly show that many still continue to be influenced by the same fallacies which formerly misled those who considered it to be the duty of Governments to regulate wages. In some of the states of the American Union laws have been passed fixing a day's work at eight hours. Such a law would certainly find

BOOK II.  
CH. VIII.

*Government interference examined.*

*Other forms of legislative interference with wages.*

favour with some very intelligent workmen in England. A programme has lately (1882) been put forward by an influential section of French workmen, advocating a universal reduction of a day's work to eight hours, and also that the State should fix the minimum of wages, varying this minimum each year with the cost of the provisions<sup>1</sup>. With regard to the proposal to place a legal limit upon the length of the day's work it is with much plausibility argued that if this eight hours' law were passed, labourers would probably receive as much for eight hours' work as they do now for ten hours' work; for it is said that the supply of labour would be diminished, and therefore its remuneration would be proportionately increased, if men were forbidden to work more than eight hours a day. In order to show the fallacy of this reasoning, it will only be necessary briefly to allude to some of the consequences which we have above shown would ensue if a law were passed to raise wages. Employers would find their profits diminish if they had to pay as much for eight hours' as for ten hours' work. This diminution of profits would cause capital to be withdrawn from business, and our industry would be crippled. It may, however, be argued, that employers could recompense themselves by charging a higher price for their commodities. It must not, however, be forgotten that each country has to carry on a keen contest with foreign competitors. England, therefore, would have to succumb to her foreign rivals, if the price of her products were thus artificially raised, and her trade would consequently be paralysed. But even supposing that she had nothing to fear from foreign competitors, and that a rise in general prices sufficient to compensate employers for increased wages could be maintained, the additional remuneration received by the labourer would be nominal and not real; if he obtained a greater number of shillings for a certain number of hours' work, these shillings would be of less value to him than before; for since general prices have risen they would possess less purchasing power.

*The consequences of an eight-hours' bill.*

Many, no doubt, are induced to advocate legislative restrictions on the hours of labour, from a conviction that at the present time men are often over-worked, and that as

<sup>1</sup> See articles by M. de Laveleye in *Fortnightly Review*, April, 1883, and *Contemporary Review*, April, 1888.

much would be done if the hours of labour were shortened. If this opinion be correct, employers could of course afford to pay the same wages for a shorter day's work. Every one would rejoice if such a change were brought about; for it is most desirable that the hours of toil should be as far as possible diminished, so that men may have more leisure for physical and mental enjoyment. Nothing is a greater reproach upon our vaunted material progress, and nothing more surely indicates the grave defects in our existing economic arrangements, than the fact that a vast augmentation of national wealth has hitherto done so little to make the labourer feel that his struggle for existence is less severe. But if it is true that as much work can be done in eight hours as in ten, employers should be made to recognise the circumstance, not by legislation, but by experience. It is not difficult to foresee the inconvenience and the countless anomalies that would arise if a law were passed on such a subject. Different kinds of labour vary greatly in severity. It can scarcely be seriously argued that when work is light as much can be done in eight hours as in ten. Some labour is so exhausting that, at the present, eight hours is considered a full day's work. For instance, in the Cornish copper mines, the men who work underground never work more than eight hours in a day; whereas those who are employed in lighter work upon the surface labour for ten hours. It may be hoped that in future, workmen will have increased opportunities of showing what is the best time for a man to continue working in different employments. If cooperative institutions and industrial associations should extend, a larger number of labourers will be carrying on various kinds of business on their own account; they could therefore ascertain from their own experience what in each special case is the proper length of a day's work. No discovery would be more valuable in its social and economic aspects than if they could demonstrate that many of our labourers would be able to do more work if they received higher wages, or if they were employed for a smaller number of hours during each day.

To provide work for the unemployed is a service which many think they have a much greater right to demand from the Government than the regulation of wages by law.

*It is possible that in some employments labourers could do as much in eight hours as in ten.*

*Effects of granting a legal right to employ-*

BOOK II.  
CH. VIII.

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We will trace some of the consequences that would ensue, if every applicant had a right, not only to demand work from the Government, but to receive the ordinary wages. When such a privilege was first granted, it might prove very beneficial to the labouring classes, and would not probably be injurious to the general community; but if the privilege were continued, its ultimate effects would be most disastrous to the nation. If the Government were compelled to find work for the unemployed, it would be necessary to provide the money, either by loan, or by increased taxation. If the money were supplied by loan it would still be necessary to resort to increased taxation in order to provide the interest. So far as the money expended by the Government in giving work to the unemployed was obtained from capital previously invested in home industry, an influence would be brought into operation to lower general wages. In such a country as England however the experiment might continue for some time without leading to such a diminution of capital, because there might be a considerable increase of taxation without lessening the capital employed in home industry. There would be therefore, in the first instance, a real gain for the working classes, if the wages paid to labourers by the Government were obtained, not from capital, but from a reduction in the personal expenditure of the tax-payers, or from a diminution in the amount of capital invested abroad. This benefit would not necessarily be confined to the labourers; for a Government may frequently increase the wealth of a country by applying a loan, or increased taxation, to public works, which would not be carried out by private enterprise. It therefore appears that, if a great number of labourers were thrown out of work by some sudden and unavoidable cause, a Government may be justified in promising, as a temporary expedient, to find work for the unemployed. Such a policy need not in any way cripple the productive resources of the country, because the money which is paid away by the Government in wages will not, in the first instance, be provided out of the capital of the nation. The most disastrous consequences, however, would ensue, if the Government continued to give employment to all applicants; for population has an indefinite power to increase;

and, therefore, no limit could be assigned to the numbers which Government would be compelled to employ, if it engaged to give work to all those who applied for it. If Government offered such assistance to the working classes, there can be no doubt that, in the present state of society, an increase in population would be so powerfully stimulated, that the number of those seeking employment would be constantly augmented; at last the resources of the nation would be strained to the utmost to provide the wages which the Government would be called upon to pay. This is no imaginary supposition, for statistics have demonstrated that many among the lower classes of society marry with utter recklessness. If they can live when they first marry, they are perfectly contented; the additional expenses which a family entails are not thought of. If, therefore, Government found work for all applicants, marriages amongst the labouring classes would be so encouraged, that increase of population amongst them would no longer be restrained by any prudential checks. The State, therefore, could not continue to find work for the unemployed, unless a law were passed imposing severe checks upon the increase of population. The absolute necessity of this precaution is shown in our own system of Poor Laws. Every parish is bound to provide all those who are charged upon it with food and clothing sufficient to protect them against physical want. But those who claim this relief can be compelled to reside in the workhouse, where they are subjected to certain restraints; man and wife, for instance, unless they are very aged, are not permitted to live together; if this were allowed, union workhouses would become establishments for breeding hereditary paupers, and the poor-rate would soon absorb the whole wealth of a parish. It therefore appears that there is a fundamental difficulty connected with all attempts to improve the material condition of the poor by any permanent system of relief; for population is encouraged by granting pecuniary assistance to the poor, and consequently the money required for such a scheme of general relief would constantly absorb an increasing amount of wealth. This difficulty can only be met by placing some check upon population; and it would be impossible for our present Poor-Law system to continue, if man and wife

BOOK II.  
CH. VIII.

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on popula-  
tion.*

*Schemes of philanthropy must be sufficient to raise the lower classes to a different stage of comfort.*

*National education would effect a real improvement in the condition of the poor.*

were permitted to live together in the union workhouse. It is not here necessary to pursue this subject further; as the influence exerted by the Poor Law upon the condition of the labourers will be considered in a separate chapter.

In considering any scheme for improving the condition of the poor, one of the chief points to keep in view is to endeavour if possible to effect so marked an advance in their condition that they will not willingly sacrifice the higher standard of comfort which they have reached. If the improvement effected is only slight there is a danger that it will not be sufficiently valued to prevent its being lost through some form of improvidence. Any scheme of general philanthropy cannot, therefore, be really efficient, unless it so decidedly improves the condition of the working classes, that they are lifted into a different stage of social and material comfort. Some of the lower classes marry recklessly, because they do not feel that they have any social position to maintain; and they often live so miserably that they cannot be said to have an habitual standard of comfort, such as they will not willingly resign. Men in the middle and in the upper classes will not, as a general rule, marry, if they expect to be obliged to live in an inferior state of comfort, and to bring their children up in a lower social position. Similar prudential motives would control the labouring classes if their material condition could be once greatly improved. They would then possess, as the middle and upper classes do now, an habitual standard of comfort, which they would not willingly sacrifice by improvident marriages.

The natural conclusion to be drawn from these remarks is that no remedy for low wages can be really effectual, unless it increases the efficiency of labour and secures a social and moral improvement in the condition of the labourers themselves. This being the case it will not be difficult to show that national education will be the most powerful agency in effecting a real advance in the condition of the poor. It is most essential that this agency should be brought into operation, for many remedies for low wages, such as emigration, will produce no great or permanent effect, unless our people become better educated. If a large portion of the nation

is permitted to remain in a state of ignorance, emigration and every other remedial measure will be powerless to remove the poverty of the very poor.

Little need be said in reference to the increased efficiency which is given to labour by education. There is scarcely an industrial process which does not require a mental as well as a physical effort. It has until recently been generally assumed that agricultural operations vary so little from year to year, and that the implements with which the land is cultivated are so simple, that education is of little importance either to a farmer or to his labourers. But gradually the truth is beginning to dawn even upon farmers themselves, that agriculture, as much as any other industry, requires skill and intelligence; that in order to realise satisfactory profits costly and complicated implements must be used, and that these cannot with safety or advantage be entrusted to rude and ignorant workmen. Employers in every part of the country now complain that each year it is becoming more doubtful whether England will be able to maintain the commercial supremacy she once possessed: the countries which are becoming her most formidable competitors are those which like Prussia and the United States have long since established a system of national education. Increased dexterity; greater power of concentration; superior trustworthiness; quickness in discovering a new industrial process and in learning how to use a new machine, are some of the many industrial advantages which the labourer whose mind has been trained generally possesses over one who has grown up in ignorance.

A not less important influence is however indirectly exerted by education upon the efficiency of labour and upon the prosperity of industry. Ignorance almost invariably implies premature employment. Millions in this country are unable to read and write, not because there were no schools within their reach when they were young; but because their parents, either through ignorance, poverty, or selfishness, sent them to work at too early an age. Frequent allusion has been made to the deplorable ignorance of our rural labourers; yet it is well known that there are few of them who were not at school when very young. A child, however, who is taken from school when

BOOK II.  
CH. VIII.

*Education greatly increases the efficiency of labour.*

*The direct and*

*indirect benefits of education.*

eight or nine years old rapidly forgets almost the whole of the little he has learnt. Widespread ignorance therefore is a sure indication that a considerable proportion of the population has had inflicted upon it the manifold evils which result from premature employment. Health is sacrificed, physical vigour is diminished, and strength often becomes exhausted at an age when men ought still to be in the prime of life. The mischief which thus results is not confined to the labourers themselves; the whole community suffers a severe pecuniary loss if the industrial efficiency of those by whom wealth is primarily produced is impaired. Many who are thus made prematurely old have to be maintained by parochial relief, at a time of life when they ought still to be productive labourers. In this way the burden of local taxation is seriously increased.

*England cannot maintain her commercial supremacy unless her labourers are educated.*

*The burdens of local taxation would be lightened by education.*

*Crime and pauperism would decrease.*

Each year facts are coming to light which show that the competition which England has to carry on with foreign countries is more keen and more closely contested; and the balance of advantage may not improbably ultimately turn in favour of the country which has the most intelligent and best educated workmen. Again, the complaint most frequently heard from English employers is, that industry is impeded by the heavy burdens of local taxation; and that trades'-unions enforce upon employers regulations antagonistic to the principles of Political Economy. The importance to be attributed to this latter allegation will be considered in a subsequent chapter upon strikes and trades'-unions. It is here sufficient to observe, that if a child is allowed to grow up in ignorance, it can scarcely be expected that when he becomes a man he will possess the requisite knowledge to enable him to guide his actions in strict accordance with the principles of economic science. With regard however to the pecuniary burdens which the industry of this country has to bear, no one can doubt that this is an evil of great and increasing significance. It is almost needless to state that to crime and pauperism are in a great degree due the onerous charges which our industry is compelled to bear. Statistics indisputably prove that ignorance is the fruitful source of crime. The vast majority of convicted offenders are unable to read and write with facility. It may be said that drunk-



eness is the most powerful promoter both of crime and pauperism; but there is manifestly an intimate connection between intemperance and ignorance. Men will frequent the public-house if they are unable to derive enjoyment from rational pleasures; for leisure, instead of being a blessing to them, hangs heavily on their hands.

England has only enjoyed a system of national education since 1870, when the Elementary Education Act was passed; and evidence is beginning to be afforded of a very gratifying diminution in crime, drunkenness and pauperism. Since 1869 the number of persons convicted of criminal offences in England and Scotland has decreased by nearly 25 per cent. It is calculated that the decrease in the consumption of spirits between the year 1875-6 and the present year, 1882-3, causes an annual loss to the revenue of 5,000,000<sup>1</sup>; and within the last ten years the number of persons in receipt of parochial relief in Great Britain has decreased by about 25 per cent. notwithstanding that there has been during the same time a considerable increase of population, and a depression in many branches of trade. Although we should not be warranted in attributing the whole of this improvement to the introduction of national education, yet the facts just quoted afford strong ground for the hope that the diffusion of education over the whole of Great Britain<sup>2</sup> is beginning to produce a marked influence upon its social and economic condition.

In attempting to trace some of the economic consequences which are likely to result from an extension of education, particular importance ought we think to be attributed to the influence that may be exerted in increas-

*Since the passing of the Elementary Education Act (1870) there has already been a very marked improvement in the condition of the labouring classes.*

<sup>1</sup> See Mr Childers' budget speech, April 5, 1883.

<sup>2</sup> It is greatly to be regretted that the system of national education which was secured for England and Scotland by the Education Act of 1870 and by supplementary Acts which have since been passed, has hitherto not been extended to Ireland. By the application of compulsory education a certain amount of school attendance is now secured to every child in Great Britain. The same obligation is not imposed upon parents in Ireland, and consequently each year the general average of education in Ireland is likely to become much lower than in England. So far as we are aware no valid reason has ever been suggested why the State should repudiate for Irish children a responsibility which it has assumed with so many good results with regard to children in the rest of the United Kingdom.

ing the efficiency of labour. It is almost a truism to assert that an intelligent labourer is as a general rule a more productive workman than one who is unintelligent; for instance, a man of active intelligence can adapt himself much more readily to changes in industrial processes which may be rendered necessary by improvements in machinery, than one who is sunk in stolid ignorance. It is also important to bear in mind the effect that may be exerted upon industrial efficiency by any improvement in the moral condition of the labourers. As an example, reference may be made to the fact that with each advance in the trustworthiness of workmen a smaller amount has to be expended in the mere labour of superintendence; and when work is done with greater activity and intelligence an improvement takes place in its quantity and quality. When this is the case the expenditure of a certain amount of capital and labour yields a larger return and consequently there is an additional fund from which capital and labour can both obtain an extra reward. We shall have frequent occasion to point out how different are the consequences which ensue according to whether any additional remuneration labour may receive is taken from the employer's profits or is obtained from increased efficiency. In the former case the advantage to the labourer can as a general rule be only temporary, because with a diminution in profits the inducement to employ labour diminishes and the demand for it consequently declines. When however higher wages result from the increased efficiency of labour the advance in wages will be generally accompanied by a corresponding increase in profits, and consequently in this case instead of higher wages calling into existence a force to reduce wages there will be an increased demand for labour consequent on the rise in the rate of profit.

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Although our remarks would lead to the conclusion that greater reliance is to be placed upon improved education than upon any other circumstance to secure a permanent advance in the labourer's condition, yet it would not be desirable to underrate the importance of many other agencies that may be brought into operation. A most beneficial influence, for instance, may be exerted, not only upon the working classes but upon the general industry of

the country, by any improvement in the means of communication which leads to increased facilities being given for the migration or emigration of labour. Relief is thus not only given in those cases where the supply of labour is in excess of the demand, but the labour which is drafted away is often of inestimable value in developing the resources of those places where labour may be scarce. The United States, as well as Canada, Australia, and other colonies, owe much of their rapid increase in wealth and prosperity to the supply of labour they have received from Europe. These new countries not only afford many advantages to labourers, but the supplies of cheap food which they furnish to a thickly-peopled country like England are of incalculable importance. In return for the supplies of food we receive from them, they take from us manufactured goods, and thus an exchange mutually beneficial takes place.

In the chapter on cooperation, other agencies, such as building societies, will be referred to, as calculated to exert an important influence in improving the condition of the labouring classes. It is we think essential to avoid the mistake of placing too great reliance upon any single agency for effecting social improvement. What is required is simultaneously to bring into operation every available means by which the condition of the poor is likely to be ameliorated. If a marked advance can be secured in the condition of one generation, it is far less likely that there will be a relapse into the former state of things. It is perhaps not unnatural that the advocates of any particular scheme of social improvement are apt to place too high an estimate upon the effects produced by its operation; and many instances might be quoted of the reaction of disappointment which ensues when it is found that the expectations first indulged in are not realised. As an example, it may be mentioned that some forty or fifty years ago extravagant hopes were formed of the benefits to be conferred on labourers by the system of allotment gardens. There can be no doubt that these allotments exert a most beneficial influence. They are not however in themselves sufficient to raise the condition of a class. Too much was in fact expected from them. People became disappointed, and many high authorities on economic subjects have

BOOK II.  
CH. VIII.

*Migration  
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subsequently underrated their advantages. It has, for instance, been maintained that, in the case of our worst-paid labourers, an allotment only acts as a rate in aid of wages; that these labourers obtain from their wages and their allotments only just sufficient to live upon; and that, consequently, their wages would have to be advanced if they were deprived of their allotments. In some cases there is a certain amount of truth in these allegations; but as the labourers gradually improve, the produce obtained from an allotment must represent a real addition to wages. When allotments can be provided for town labourers, they not only supply much produce which would be expensive to purchase, but they furnish a healthy and most desirable occupation for leisure time. The greatest care should therefore be taken to secure land for allotments. The enclosure act of 1845 specially provided that when land was enclosed, some portion of it should be reserved, as allotments for the labouring poor. These provisions have been most shamefully ignored. In the year 1869 a bill was introduced into Parliament by the Government to enclose in different parts of the country 6,900 acres of land, and the whole amount reserved as allotments for the labouring poor was 6 acres.

Sometimes it is urged, with the supposed object of benefiting the poor, that our remaining waste lands should be brought under cultivation. Those who make such a demand should remember that since the commencement of the last century nearly 5,000,000 acres of land have been enclosed. Evidence which has been repeatedly given before Parliamentary Committees, indisputably proves that in the case of almost all these enclosures the interests of the poor have been systematically neglected. The land which has been thus enclosed has sooner or later been added to the large estates of neighbouring proprietors. Land over which the public could exercise many most valuable rights and privileges is, when enclosed, converted into private property. The opportunities for recreation and for enjoyment are not only greatly curtailed, but labourers who have been accustomed to graze a cow or feed poultry upon a common, never again have a similar opportunity when the common is enclosed. Those who possess rights of common are no doubt, in the first instance, com-

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pensated; but the benefits of this compensation rarely extend beyond those who receive it. The small plot of land which is allotted to some poor commoner is almost certain to be sold; whereas his rights of common constituted a property which could not be alienated. Formerly it was advantageous to bring unenclosed land under cultivation, but enclosures have now in almost every locality gone far enough. Every new proposal for destroying a common should be watched with the utmost jealousy. Such public lands as commons must each year become of more value and importance to the whole community, in a country where land is so scarce, and so eagerly sought after as it is in England.

Many other remedies for improving the condition of the poor have from time to time excited public attention. The efficiency of these may be tested by considerations similar to those which have been mentioned in this chapter. The question of primary importance is this. Will the agency proposed exert an influence to make the poor rely upon self-help? It will be shown in the chapter on State Socialism that there never was a time when it was more necessary to apply this test; for in our own and other countries various proposals are receiving increasing support for carrying out social and economic schemes by funds supplied by the general body of the tax-payers. We believe that if the working classes are encouraged to seek this form of State assistance a most disastrous effect will be exerted in weakening the influence of self-help and self-reliance.

*No agency will effect a lasting improvement in the condition of the poor, unless it makes them rely on self-help.*

## CHAPTER IX.

### TRADES'-UNIONS AND STRIKES.

BOOK II.  
CH. IX.

*Trades'-unions have two objects; that of ordinary friendly societies, and that of organisations to influence wages.*

**T**HE frequency of strikes has for a considerable period been a prominent feature in the social condition of England. The labouring classes would not be always ready to make such great sacrifices to support a strike, unless they believed that it was an efficient remedy for low wages. The subject demands a careful and dispassionate consideration, for the prejudices of each party in the dispute are so strong, and the feelings excited so angry, that little is heard but useless recrimination and unreasoning partizanship.

According to popular ideas, strikes are inseparably connected with trades'-unions, and it will therefore be necessary, in the first place, to settle the much-disputed question as to the purposes which trades'-unions are intended to fulfil. A royal commission, after an elaborate investigation, made a report in 1869 upon trades'-unions. From this report and other sources of information the following conclusions may be deduced:—Trades'-unions serve two distinct purposes. In the first place a trades'-union performs the ordinary functions of a friendly society. A member of one of these societies is assisted, when thrown out of work either by illness, or by the stagnation of trade. It is not here necessary further to discuss the effects of a trades'-union, when it is simply used for the charitable purposes just indicated. But a trades'-union is always something more than a friendly society; its chief purpose is generally to organise the workmen of a particular trade into a combination, sufficiently powerful to enforce various regulations, both upon masters and men.

The promoters of trades'-unions seem distinctly to understand that the most effective way to raise the wages in any particular trade, is to restrict the number of labourers who are employed in it. Consequently many of the rules of these societies are framed with the specific object of artificially limiting the supply of labour. Thus some trades'-unions will not permit a master workman to take more than a certain number of apprentices. In the hat trade the number is limited to two. If the union has sufficient power to enforce obedience to its mandates, any restriction which limits the number of those brought up to the trade must exert a direct influence to raise the wages which are paid in this particular branch of industry. For suppose that those who are engaged in the manufacture of hats were freely permitted to take as many apprentices as they pleased, the number of journeymen hatters in the country might be very much increased. Let it be assumed that there would be twenty per cent. more journeyman hatters than there are now; under these circumstances, there would be a greater number of labourers competing for employment in the hat trade, and their wages would consequently be reduced. The saving resulting from the lower wages will ultimately benefit those who purchase hats, because the price of hats would be reduced. The hat manufacturers would not be able to appropriate to themselves the savings which would accrue from the payment of a less amount in wages, because, when the cost of producing any commodity is reduced, its price is sure to be lowered in a corresponding degree, since people engaged in the same trade compete against each other for as large an amount of business as possible; and in their anxiety to undersell one another, they offer their commodities at a price just sufficiently in excess of the cost of production to leave them the profit ordinarily realised in trade. It therefore appears, that those who purchase any commodity are compelled to pay a higher price for it, and that the wages of the labourers engaged in its manufacture are artificially raised when restrictions are imposed which limit the number of those who are permitted to be employed in the particular trade.

These restrictions can on no grounds be defended; in the first place, any such interference with the distribution

BOOK II.  
CH. IX.

*Trades'-unions sometimes attempt to raise the wages of a particular trade by limiting the number of workmen.*

*Such limitations are indefensi-*

BOOK II.  
CH. IX.

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of the labour of the country, amongst its various branches of industry, introduces many most mischievous inequalities. The labour of which some employments are compulsorily deprived is thrown, as a burdensome surplus, upon other branches of industry; and the wages in some employments are consequently as much depressed as the wages in others are raised. The members of a trades'-union, when they usurp such powers, virtually confiscate to their own advantage a portion of the wages which would be paid to other classes of labourers, if industry were unshackled by such arbitrary rules. Although this injustice is striking, yet there still remains to be described a much greater wrong, which is inflicted upon those who are prevented by a trades'-union from following the employment they would select, if left to their own free choice. There is no right to which all men and women have a more indefeasible claim, than absolute freedom to follow those pursuits in which they think they are best qualified to succeed. The laws of a free country ought to secure to every one this right; for, if it is denied, individual freedom at once ceases to exist. Such a right is denied, if a person is excluded by a trades'-union from following a particular employment. It is no excuse for the members of the union to say—Our trade is already overcrowded, wages are too low in it, and it would be disastrous if they should be still farther reduced by an increase in the number of those applying for employment. Every man has a right to judge of such things for himself; he may wish to engage in the trade, because he has a particular capacity for it, and if he is arbitrarily driven to some other employment, he is deprived of the advantages of the skill with which nature has endowed him. It would therefore seem, that trades'-unions may inflict upon labourers great social tyranny; it is not the labourers who alone suffer, for every class of the community is more or less injuriously affected. These trades'-unions may imperil the very existence of an industry in any particular district: for the various restrictions imposed upon employers may so much increase the cost of a commodity, as to render it impossible for them to compete against others in the same trade, whose operations are not similarly impeded. Examples may be quoted which prove that some branches of



industry have been driven from certain localities by trades'-unions. These societies have long been very powerful in Birmingham, and their efforts were at one time chiefly directed against the introduction of machinery. These efforts were in a great degree successful, and consequently, when steam began to be generally applied, those trades which required much machinery settled in other localities, and the manufactures of Birmingham are to this day in a great degree confined to those branches of industry which require comparatively a much greater amount of manual labour than machinery.

It may perhaps be asked:—How can these trade societies exercise the influence they do, when everyone is aware that the coercion they practise is not based on any legal sanction? No one can doubt that the members of a trades'-union commit a criminal act, if they attempt, in the slightest degree, to interfere with any individual who does not belong to their society. It would therefore appear that social terrorism is the source of their power; for although such outrages as those committed at Sheffield are exceptional, yet a non-union man is subjected to so many petty annoyances that his life not unfrequently becomes a burden to him; and employers are coerced in a similar manner, if they do anything contrary to the rules of a trades'-union. Thus if a master, engaged in some business such as wool-stapling, where the trade society is all-powerful, were to employ non-society men, all his labourers who belonged to the trades'-union would at once refuse to work for him, and he would in this way be subject to great loss and inconvenience.

It is not, however, these regulations concerning the internal arrangements of a trade, which have caused so much public attention to be directed towards trades'-unions; the interest excited in these societies has been in a great degree due to their connection with strikes. The trades'-unions have, in fact, endeavoured to regulate wages, and they apply their organisation to compel employers to agree to their demands. If, for instance, it is proposed to reduce the wages in some particular branch of industry where the majority of the men employed belong to a trade society, then, if the leaders of the society consider that the reduction ought not to be made, they issue an order that

BOOK II.  
CH. IX.

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BOOK II.  
CH. IX.

work should be discontinued rather than accept the reduction. If the reduction is still insisted on by the employer, the immediate consequence is a turn-out of the workmen, or, in other words, a strike. Now it is evident that a trades'-union need not necessarily have the slightest connection with a strike; even if trades'-unions did not exist, strikes might still be of frequent occurrence. A strike implies a combination amongst a large number of workmen, and such a combination is not possible unless a considerable majority of those engaged in any trade agree to act in unison. Such combined action as a strike requires cannot therefore exist unless the workmen submit to be governed by an organisation. The trades'-unions supply this organisation, without which there cannot be complete unity of action. It is quite possible, however, to conceive that a trades'-union may prevent a strike, and many of these societies have, as yet, never been connected with a strike; still, as long as a great number of workmen in this country are warm advocates of the system of strikes, it is quite certain that trades'-unions and strikes will be intimately connected together.

*Question whether combinations of workmen can raise wages.*

Since a strike requires combination, we have to inquire, when investigating the effect of strikes, whether workmen by combining can obtain higher wages. It can scarcely be disputed that they possess a perfect right to combine. The right may be, and has been, abused; then, of course, it ceases to be justifiable; but if employers are freely permitted to invest their capital to the greatest possible advantage, the employed may equally claim to be allowed to obtain the highest wages they can for their labour. If, therefore, any number of them choose to form themselves into a combination, and refuse to work for the wages which are offered to them, they are as perfectly justified in doing this as capitalists are when they refuse to embark their capital because the investment offered is not sufficiently remunerative. Workmen, however, do an illegal and most mischievous act, which ought to be severely punished, if they attempt to sustain the combination by force, or if they coerce individuals to join it by threatening to subject those who keep aloof either to annoyance or personal violence. Workmen have sometimes maintained their combinations, not only by acts of violence,

but also by various kinds of social terrorism. Justice obviously demands that the blame which attaches to such actions should not be borne by those who never abuse the power of combination. An increasing number of the intelligent artisans of this country each year become more decided advocates of trades'-unions. The influence of these societies is rapidly extending in other countries; it is therefore very important to ascertain the effect exerted upon wages and upon the general condition of the labourer by a legitimate use of the power of combination.

It is interesting to remark, as pointed out in "The Economics of Industry" (p. 189) by Mr and Mrs Marshall, that when Trades'-Unions first began to be formed at the beginning of this century, they directed their efforts mainly to obtaining the revival of certain restrictions in trade, such as a limitation in the number of apprentices, which had been framed in the time of Mary and Elizabeth. Gradually, however, instead of asking for Government interference, trades'-unionists have so successfully directed their efforts to free themselves from Government interference, that now the right of combination has been fully recognised and workmen are freely permitted to combine in any manner which would be lawful to other persons.

When investigating the effect of trades'-unions on wages it is essential to keep clearly in view the fundamental distinction between the permanent and temporary consequences which arise from the operation of an economic agency. In every branch of industry there is a certain position of equilibrium to which profits and wages have a tendency to approximate. A long time however may be required to restore wages and profits to this position of equilibrium. Thus the woollen trade cannot permanently continue very much more profitable than the cotton trade, because the competition of capital will gradually induce capital to be invested in the one trade and withdrawn from the other. Competition cannot exercise this equalising force instantaneously; it takes, for instance, a considerable time to erect new woollen mills, and there will be always much hesitation before men will relinquish such a business as the cotton trade, to which they have been accustomed. Hence, one branch of manufacture may continue for many years exceptionally prosperous, whilst in

BOOK II.  
CH. IX.

*The great majority of intelligent artisans are in favour of trades'-unions.*

*The effect of competition is gradual not immediate.*

BOOK II.  
CH. IX.

*Under some circumstances the force of competition is neutralised for an indefinitely long period.*

*If competition acted instantaneously, combination would have no effect on profits and wages.*

some other business there may be a corresponding depression.

Competition exerts a similar equalising influence upon wages. If wages in one branch of industry are exceptionally high, whilst in some other they are exceptionally low, labour will be gradually attracted to the business in which the high remuneration is given, and will be withdrawn from the business in which the remuneration is less than the average. But here again time is required for carrying out this equalising process. Labourers will rather submit to some temporary loss than change their occupation. A considerable expense will also be incurred, if a man has to change his residence in order to obtain a new employment. In some cases it happens that such obstacles as these neutralise the force of competition, not temporarily, but for an indefinitely long period. For instance, the wages of agricultural labourers in some localities are permanently depressed below the average rate. The reason of this is, that the force which competition would exert to advance these wages is neutralised by the labourer being prevented through ignorance and poverty from resorting to those localities where wages are higher. These general remarks enable us more exactly to determine the influence which can be exerted upon the condition of the labourers by the power of combination.

If competition acted instantaneously, or in other words, if profits and wages in every branch of industry were always at their natural rate, it might be at once concluded that the power of combination could exercise no effect either upon profits or upon wages. Suppose, for instance, that workmen by resorting to a strike obtained an advance in wages. This advance would be of no benefit to them, if the competition of other labourers, anxious to participate in this advance, could immediately produce its equalising effect. No conclusion of any practical value can be arrived at on the subject unless the mode in which competition acts is kept steadily in mind. In all those branches of industry in which the competition of labour and capital freely acts there cannot be secured any permanent increase in profits or wages, by a combination either of employers or employed. It has, however, been previously remarked that in some cases the equalising

*The effect of a trades'-union upon the wages of agricultural labourers described.*

effect of competition is neutralised through an indefinitely long period. This occurs with regard to agriculture, in those counties where wages are the lowest. When a branch of industry is in this position, there can be no doubt that labourers can by combining secure a permanent advance in wages. Suppose, for instance, that when the Dorsetshire labourers were earning only ten shillings a week they received so much extraneous assistance that they were able to maintain a prolonged strike. The farmers, under such circumstances, would almost inevitably be vanquished in the struggle. They would be ruined if their land remained uncultivated, and since the wages previously paid were minimum wages, it would be impossible to obtain labour from other localities unless a higher remuneration were offered for it. The power of combination has, within the last few years, since the establishment of agricultural labourers' unions, produced some effect in raising the wages of our worst-paid agricultural labourers. When these combinations become more general, various other agencies, such as migration and emigration, will be brought into operation to raise wages. It now remains to investigate the influence which a power of combination may exercise upon wages and profits, during the time which always elapses, before competition can produce its equalising effect.

When men labour simply for hire, it is manifest that the adjustment of wages is analogous to the bargaining which is carried on by the buyer and seller of a commodity. Although it is no doubt true, that the price, at which a commodity is sold, approximates to the cost at which it can be produced and brought to market, yet the price at which it is actually sold is often to a considerable extent influenced by various circumstances which may happen to place the buyer in either a better or worse position for bargaining than the seller. In a similar way wages ultimately depend upon the amount of capital and upon the number of labourers; yet the wages which, at any time, are paid in a certain trade are to a considerable extent influenced by the relative advantages possessed by employers and employed for carrying on the bargaining by which wages are adjusted. The question therefore arises, Will workmen by combining, or by showing that

*Wages are fixed in the same way as a bargain, carried on by the buyer and seller of a commodity.*

*Do combinations improve the position of the parties to this bargain?*

BOOK II.  
CH. IX.

*Combinations exist among employers.*

*An example of the effect of combinations upon wages.*

they have the power to combine, improve their position in carrying on this bargain?

It is well known that employers in various trades frequently act in combination. For instance, the iron-masters in the midland counties hold quarterly meetings at which a scale of wages and prices is fixed. Every iron-master considers himself bound to conduct his trade in strict accordance with the scale agreed upon. If any one should disobey the decision of the meeting, he would subject himself, not indeed to personal violence, but to a social terrorism very analogous to that by which trades'-unionists so frequently maintain their organisations. The recalcitrant iron-master would be abused by his fellow-employers, and very probably an effort would be made to ruin one whose conduct was supposed to be injurious to the interests of his class. It is impossible fully to understand the effects resulting from combinations of workmen unless it is remembered that similar combinations are formed by their employers.

Let it be supposed that the iron-masters at one of their meetings decide, in consequence of a prosperous state of trade, to advance wages 10 per cent. The iron-masters, who like other people are liable to mistakes, may not have made such an advance in wages as the state of the trade would fairly admit. Wages might, perhaps, have been raised 20 per cent., without unduly trenching upon profits. A labourer, impressed with the conviction that an advance of 10 per cent. is not sufficient, demands something more from his employer. The employer, who has entered into a compact with others of his class, as to the wages which shall be paid, must at once feel the advantageous position he occupies in resisting the demands that the labourers make upon him, if they have no organisation for combined action. He knows that if any of them refuse to work for him, they will be unable to obtain higher wages from other employers in the locality; because by previous agreement a uniform rate of wages prevails. A labourer has seldom saved sufficient to be able to maintain himself for any length of time without work; he makes a great sacrifice if he seeks another occupation to which he is unaccustomed, and especially at a time when his own trade happens to be exceptionally prosperous. It therefore ap-

*Bargaining implies an antagonism of interest.*

*Another example.*

*If the employed do not combine, they are not in a position of equality with their employers.*

*The loss described which a strike inflicts both on employers and employed.*

pears, that the bargaining which often goes on in adjusting wages, implies a struggle, or a conflict of effort between employers and employed; in this conflict a great advantage will be possessed by those who can act in concert, over those who simply act as isolated individuals. The truth of this will be more distinctly perceived by considering what would occur if, in the case just described, the labourers combined to make a demand for a greater advance in wages. Assume that in the iron trade there is a powerful trades' union; that all the labourers in the district belong to it, and that they are as well organised as their employers. The representatives of this trades' union would feel that they were placed in a position of equality with their employers, when making a demand for higher wages; the employer also would know that as a last resource a strike would be agreed upon. This would bring business to a standstill, and thus trade would be suspended when it was very prosperous, and when exceptionally high profits were being realised. The loss and inconvenience thus inflicted upon employers would be a strong inducement to them to yield to the demand of their labourers if it could be fairly conceded. Each party to the bargain would thus be placed in a position of equality when arranging its terms.

In the example just investigated it has been implied that the employers do not, in the first instance, offer an adequate advance in wages. It often, however, happens that the labourers err on their side, and insist upon wages which cannot be fairly conceded. The only security against such errors is the serious loss inflicted both on masters and men by trade disputes. It is difficult adequately to estimate the loss which is caused to each party by such a suspension of business. The employers not only have a vast amount of capital lying idle, but a very considerable portion of their trade may permanently pass away to other localities. When business is recommenced many of their former labourers have left the district, and their places have to be occupied by inferior workmen. During a strike labourers often endure the most severe hardships; the savings of many years are spent, and so acute is the distress, that even household furniture has sometimes to be sold. All this suffering is aggravated by the losses in-

BOOK II.  
CH. IX.

flicted on the employers, because if a great amount of capital is sacrificed in the conflict, less will remain to be distributed in wages when work is resumed.

There can be no doubt that in the majority of strikes the masters have been sufficiently powerful not to concede the demands of their workmen. Not only do the superior resources of the employer enable him to carry on the struggle for a longer period, but workmen are generally such unskilled tacticians that they usually strike, not to secure an advance in wages when trade is prosperous, but to prevent a reduction when trade is depressed. In times of depression a temporary suspension of business may very possibly be rather an advantage than a loss to employers. Consequently at such a time the prospect of a strike implies by no means so formidable a threat as when trade is active.

*Strikes are inseparable from our present economic system. Because, as long as wages are settled in the same way as a bargain, it must often happen that one party will refuse to accept the price offered by the other. Conciliation and arbitration, though useful, do not remove the cause of these disputes.*

From the tenor of these remarks it appears that strikes are inseparably associated with our present economic system. As long as the relations between employers and employed continue to be analogous to those existing between the buyer and seller of a commodity, it must often happen that the one party will refuse to accept the price which is offered by the other for labour; if the refusal is persisted in, a strike inevitably ensues. When strikes are regarded from this point of view it is as hopeless to expect that legislation can prevent them, as it is to suppose that merchants could be compelled to sell their goods if an inadequate price were offered for them. Something may no doubt be done by conciliation and arbitration, either to obviate or to render less frequent the trade disputes arising between employers and employed. A master who exhibits great personal interest in his workmen's welfare, is generally able amicably to settle any difference which arises in his business upon a question of wages. Experience has also shown that the establishment of courts of arbitration often enables trade disputes to be arranged, without recourse being had to the disastrous expedient of a strike. The efficiency of these courts depends to a great extent upon making a wise selection when choosing an Umpire. It is usual for the employers and employed to have an equal number of representatives in these courts of arbitration. The ultimate decision has therefore sometimes to



be made by the Umpire or Referee, who must be a person absolutely unsuspected of any bias towards either party in the dispute.

Such expedients as personal conciliation and courts of arbitration, although exerting a most useful influence, do not provide a completely efficient remedy for strikes. These disputes must be regarded as the natural outgrowth of the existing relations between employers and employed. In order to obtain a complete remedy for strikes, it will be necessary to remove the antagonism of interest now existing between employers and employed. Some plan must be adopted, which will make masters and workmen feel that they have an identity of interest. It is no doubt true that all those who are engaged in any business have a common interest in its prosperity; but the grave defect connected with our present economic arrangements is that the amount of advantage or disadvantage which is derived from prosperous or adverse trade by employers and employed is not arranged according to any definite plan, but is too frequently settled in an angry struggle of rival pecuniary interests. Various schemes have already been tried with considerable success, which correct the defect just alluded to, and which introduce a system of co-partnership or profit sharing between masters and workmen<sup>1</sup>. These schemes are based upon the general principle, that labourers should not work simply for hire, but should participate in the profits which are realised by their industry. It has been previously shown that the power of combination enables workmen more surely to participate in the profits realised in times of active trade. From this it would appear that the power of combination establishes, as it were by force, a copartnership between employers and employed.

If this fact should obtain general recognition it may be anticipated that the principle of copartnership will be generally introduced into our industry. In order to show that there are no practical difficulties opposing its intro-

BOOK II.  
CH. IX.

*Strikes can only be effectually prevented by removing the antagonism of interest between employers and employed.*

*This can be effected by copartnerships of industry. The principle of copartnership defined.*

<sup>1</sup> The latest and most complete information on the subject of profit sharing is to be obtained from various articles and addresses by Mr Sedley Taylor, of Trinity College, Cambridge. See *Nineteenth Century*, Sept. 1880, May, 1881, October, 1882; and also an Address on Profit Sharing delivered before the Manchester Statistical Society, Jan. 10, 1883.

BOOK II.  
CH. IX.

*Some ex-  
amples of  
the suc-  
cessful  
adoption of  
copartner-  
ship.*

*The  
Maison  
Leclaire.*

duction, which cannot be ultimately surmounted, we will proceed to describe some of the cases in which it has been applied.

One of the first and most valuable experiments was made by M. Leclaire, a house decorator in Paris. The experiment, though well known, is particularly important, because its results have been verified by the most accurate testimony. In 1840 M. Leclaire employed about 300 workmen, and the carelessness and apathy of his men subjected him to constant loss and annoyance. He therefore resolved that he would endeavour to make the labour of his men more efficient by giving them some pecuniary interest in the work in which they were employed. He calculated that each workman by putting more zeal into his work could without prolonging the hours of labour, produce surplus work equal in value to 6*d.* a day; and also that an additional 2½*d.* a day could be saved by each workman if he exercised greater care and economy in the use of tools and materials. In 1842 acting on this calculation he assembled his men together and told them that he proposed to give them the whole of this extra 8½*d.* a day, or 10*l.* a year, if they would earn it, and he overcame the doubt and suspicion with which his proposition was at first regarded by dividing there and then with the 44 men, who, he reckoned, would be entitled to participate, the profits of the preceding year. From this moment the success of the scheme dates. The workmen were convinced of Leclaire's sincerity, and the scheme, which is based upon the extra productiveness given to labour by the principle of profit sharing, has been a most remarkable success. A mutual aid society was started in connection with it which gives all its members pensions and annuities when they are disabled by age or sickness. The success of the system originated by Leclaire is strikingly manifested by the fact that it was so organised as to be independent of the fostering care of its author. Leclaire died in 1872 but the "Maison Leclaire" has more than maintained its prosperity since that date; the business of the society and the share of profits allotted to labour has steadily increased.

As another example, it may be mentioned that the Paris and Orleans Railway Company distribute a certain

portion of the profits realised amongst the working staff of the railway, and it is unanimously affirmed by the directors that the plan succeeds admirably. The amount now distributed is equivalent to about 10 per cent. on wages, the wages paid being the same as on other French railways. The plan has been in continuous operation since 1844 and the whole amount received by the employes of the Company between that year and 1880 as their share of profits, is no less than 2,395,000*l*.

The fact that the late M. Leclaire and others have been abundantly recompensed for the share of profits allotted to workmen, deserves particular attention. It shows that co-partnership does not require from the employer any sacrifice on behalf of his workmen, but, on the contrary, that both are equally benefited. The efficiency of labour and capital must evidently be greatly increased, by improving the relations between employers and employed; and when labour and capital become more efficient, there is more to distribute both in wages and profits. The error is not unfrequently committed of supposing that the share of profits allotted to labour represents so much abstracted from the returns of the capitalists. The Royal Commissioners, who in 1869 reported upon trades'-unions, failed to appreciate the advantages resulting from co-partnership, because they assumed that the share of profits received by the labourer was so much taken from his employer. If this were so, no particular benefit could attach to the system, because there would be no identity of interest established, if what was gained by the labourer were lost by the capitalist. The fundamental advantage of these schemes arises from the circumstance that the benefit they confer is mutual; the share of profits received by the labourer is a measure of the gain secured by the employer, as a consequence of the additional efficiency given to labour and capital by introducing harmony, where before there was antagonism and rivalry of interest. Some idea may be formed of the enormous saving which might thus accrue. Not only would the loss inflicted on industry by strikes and lockouts be avoided, but a vast amount of waste would be obviated. Employers constantly complain of the loss they sustain from the listlessness and apathy of their workmen. A heavy outlay

*The benefit extends both to employers and employed.*

*Some of the collateral advantages of copartnerships.*

BOOK II.  
CH. IX.

has to be incurred in overlooking labourers, in order to see that work is not shirked. In some branches of industry it is impossible to obtain anything like an adequate supervision; the labour is too much dispersed. This is particularly the case with agriculture, and to such a business copartnership could be applied with maximum advantage. It can be confidently asserted that a farmer would largely increase his own profits if he consented to allot to his labourers some portion of his profits. After paying them the current wages, and setting aside a fair amount, as interest upon capital and as remuneration for his labour of superintendence, he might agree to distribute amongst his labourers a portion, say one half, of any extra profits that might be realised. Each labourer's share of this bonus being determined by the aggregate amount of wages he had earned, the most would consequently be obtained by those who were the best labourers. Such an arrangement would powerfully stimulate the industrial energy of the labourer who is now proverbially slow in his movements and apathetic in his work because he has no inducement, except when engaged in piece work, to exert himself more than he is absolutely obliged. Other plans of industrial partnership have been adopted which secure a more complete union between capital and labour. During the last few years the practice has been rapidly extending not only of allotting to workmen a share in profits, but also of enabling them to invest capital in the business in which they are employed. When the great carpet manufactory of Messrs Crossley of Halifax was converted into a joint stock company, one-fourth of the shares were preferentially offered to the workmen engaged in the business. This arrangement, by enabling the workmen to become part owners of the concern, gave them a far more direct interest in the prosperity of the business than if they had been employed as ordinary labourers. Another very interesting experiment was carried out by the Messrs Briggs, at their collieries at Methley, near Leeds. In this instance the workmen not only had an opportunity of purchasing shares in the company, but after a profit of 10 per cent. had been realised on capital, one half of the surplus profits was distributed amongst the labourers as a bonus. Every workman was thus given an immediate interest in

*The experiments  
of Messrs  
Crossley*

*and Messrs  
Briggs.*

the success of the business. For many years this experiment was carried out with admirable success. Trade disputes, which had before been of frequent occurrence, altogether ceased, and the workmen were stimulated to increased exertions by the prospect of securing to themselves a share of the profits realised. The unprecedented rise in the price of coal, which took place in 1872, brought such sudden prosperity to coal-mining that it unhappily disturbed the harmonious relations between workmen and employers at Methley. A dispute arose upon the extent to which capital and labour should respectively participate in this extra profit, and the copartnership principle has unfortunately been abandoned. It is obvious from what has occurred at Methley that copartnership is likely to be carried out with the best chance of success in those branches of industry which are not liable to great and sudden fluctuations in prosperity. These considerations lead to the conclusion that the system could be very advantageously applied in agriculture. A very interesting experiment of the kind was tried a few years since with marked success, by the late Lord George Manners, on a farm which he cultivated on his estate near Newmarket. The plan which he adopted was very simple, and resembled in all essentials the method which was carried out by M. Leclaire in Paris. The labourers on the farm received the ordinary wages which were current in the district; but it was agreed that if through extra exertion, or greater skill on their part, extra profits were realised, a portion of these profits should be distributed among them as a bonus on their labour. Lord George Manners unfortunately died before this experiment had been long in operation; but he spoke confidently of its permanent success, and affirmed that it would prove alike advantageous to employer and employed.

It may be hoped that these copartnerships will so rapidly extend as to fundamentally change the economic relations now existing between employers and employed. There can be no doubt, as was remarked in the last chapter, that the movement will be powerfully promoted by national education; for all these schemes which have been described require men to repose a certain amount of trust in each other; distrust and suspicion are always pro-

*The progress of copartnerships will be greatly promoted by national education.*

minent characteristics of a low state of intellectual development.

Ultimately it may be hoped that there will be so much moral and social advancement as to enable a perfect union between capital and labour to be established: this is secured when labourers supply all the capital which is required to sustain the industry in which they are engaged. When this is accomplished there is cooperation in its highest form; the subject of cooperation is of so much importance that it will be necessary to devote a ~~separate~~ chapter to its consideration.

## CHAPTER X.

### COOPERATION.

WE have had frequent occasion to refer to the fact that the capital and labour which industry requires are in this, and in most other countries, generally supplied by two distinct classes, employers and employed. Industry is said to be carried on upon the cooperative principle when these two classes are merged into one, and when the capital which is needed for the production and distribution of wealth is supplied by those who provide the requisite labour. Thus a cotton manufactory would be converted into a purely cooperative undertaking, if the operatives employed in it were able to subscribe a sufficient amount amongst them to purchase the manufactory and to carry on the business on their own account. Again, an ordinary retail shop would become cooperative if the premises and stock-in-trade were owned by those who served in the shop, by the porters, and by others who are engaged in carrying on the business. The great majority, however, of the societies which are known in this country as cooperative, differ essentially both from the cooperative manufactory and the cooperative retail shop which have been just described. Cooperation has hitherto been seldom applied to the production of wealth. Probably at least nine-tenths of the existing cooperative societies carry on those ordinary retail businesses the function of which is to distribute rather than produce wealth. These distributive societies, which are now generally known as cooperative stores, are wanting in the most essential characteristic of cooperation, for they do not necessarily establish an union, or, as we have described it, a merging of capital and

BOOK II.  
CH. X.

*Cooperation explained.*

*Cooperative stores are often cooperative only in name.*

labour. The capital in these stores is owned by, and the profits realised upon it are distributed amongst, the customers and the shareholders, and in many instances those who supply the labour obtain no share of profits.

In thus pointing out that the title cooperative is now given to many trading concerns which are not conducted upon strictly cooperative principles, it must not be supposed that we underrate the great benefit which cooperation, even applied in this modified form, has conferred not only upon the working classes, but also upon the general community. The cooperative movement is no doubt, as yet, only in its infancy, but in tracing its rapid development during the last few years, we shall not only endeavour to describe the great advantages which have already resulted from it, but we shall also attempt to explain why cooperation may probably be more confidently relied upon than any other economic agency, to effect a marked and permanent improvement in the social and industrial condition of the country.

*The origin  
of the  
Rochdale  
Pioneers'  
Society.*

One of the earliest and most successful of the cooperative stores in this country was established nearly 40 years since, and it had an origin so humble as at the time scarcely to attract any notice. It appears that in the year 1844, there was great depression in the flannel trade at Rochdale, and as the wages of the weavers were much reduced, the fact seems to have impressed itself upon some of them, that their scanty earnings did not go so far as they might, because the articles sold to them in the ordinary retail shops were dear and often much adulterated. Twenty-eight of these poor weavers accordingly agreed to club together a small sum in order to purchase some tea and sugar from a wholesale shop. After they had done so, each one of their number was supplied with tea and sugar from this common stock, paying ready money for it, and giving the same price for it as they had been charged at the shops. They did not expect to secure any considerable profit; the object they had in view was not so much to obtain a good investment as to avoid purchasing dear and adulterated articles. But they found that a very large profit had been realised. The great advantage of the plan became self-evident, for not only were they provided with a lucrative investment for their savings, but they obtained unadulterated tea and



sugar at the same price as they had been previously obliged to pay for these same articles when their quality was deteriorated by all kinds of adulteration. A fresh stock of tea and sugar was of course purchased. Other labourers were quickly attracted to join in the undertaking, and subscribe their savings.

In 1856 this society, now become famous as the Rochdale Pioneers, possessed a capital of about £12,900. The business was not long restricted to articles of grocery; bread, meat, and clothing were all sold on the same plan. Their capital so rapidly increased, that they were soon enabled to erect expensive steam flour-mills; and a supply of pure bread was thus insured. During many years, this Pioneers' Society has attracted frequent public attention; for it has gradually grown into a vast commercial institution, embracing a great variety of trades. The society now occupies eighteen branch establishments in Rochdale besides its central building which was erected in 1867 at a cost of nearly £14,000.

*Development of the Society.*

The share capital of the stores so rapidly increased that it now possesses far more than sufficient to carry on its business. From the last annual report (1882) it appears that the Pioneers' Society has 10,894 members; the goods sold in that year amounted to £274,627, and the profits on this business were £32,577. After paying a fixed dividend of 5 per cent. upon capital the remaining profits are distributed among the customers of the stores in proportion to the amount of their purchases; this bonus is sometimes received in cash but is more frequently invested as capital in the society. As already stated, a capital far exceeding the amount required for carrying on the business of the stores has been accumulated. Its amount at the close of 1882 was £315,243. This capital is invested in various ways, some of it in the support of other cooperative societies, some in the shares of first-class railway companies, a large amount is invested in mortgages to members chiefly on dwellings occupied by themselves.

The remarkable success achieved at Rochdale naturally led to the establishment of similar stores throughout the country. In many of the manufacturing towns in the north of England, the working classes deal almost entirely at these stores; but they have not been established in the

BOOK II.  
CH. X.*Its method  
of doing  
business  
described.**The Civil  
Service Co-  
operative  
Stores.*

large towns only, for they are now frequently to be found in agricultural villages. Exclusive of the large London stores such as those known as the Civil Service and the Army and Navy, there are 782 retail cooperative stores in England and their annual sales amount to £13,868,498<sup>1</sup>. As previously remarked, the profits realised in these stores are distributed not amongst the employes, but amongst the customers and the shareholders. The particular method of distributing the profits which has been adopted at nearly all the stores is extremely simple, and is the one originally agreed upon at Rochdale, which we will now describe. Each customer, when he makes a purchase, receives certain tin tickets or tallies which record the amount of his purchases. The accounts are made up at the end of each quarter, and after a fixed dividend at the rate of five per cent. per annum has been allotted to capital, the surplus profits are divided amongst the customers in proportion to the amount of their purchases. Each customer brings his tin tickets, which serve as a record of the amount he has purchased. The goods are sold at the prices which are current at the ordinary retail shops. The business is strictly a ready-money one. Under no circumstances whatever is any credit given. The strict adherence to this rule has doubtless contributed more than any other circumstance to the remarkable success of these stores. At the principal Cooperative Stores in London, the business is conducted on a different plan. Here also the rule of giving no credit is rigidly adhered to, but the customers, instead of receiving their share of the profits at the end of each quarter, obtain the goods at lower prices than those which are charged in the ordinary retail shops. The method of distribution adopted at Rochdale is certainly to be preferred when, as is the case with a majority of the stores, the bulk of the customers belong to the working classes. It is obvious that an individual's share of the profits is more likely to be saved if he receives it in a lump sum at the end of each quarter, than if he is enabled to save it in dribblets each time he makes a purchase. Experience, in fact, shows that the amount which has to be received at the end of each quarter is very gene-

<sup>1</sup> See Speech of Mr W. E. Baxter, M.P., President of the Cooperative Congress held at Edinburgh on May 14th, 1883.

rally left as an investment in the society. Saving is thus powerfully promoted, for many men, by the accumulation of these small investments, gradually become the possessors of a considerable amount of capital. As affording a striking example of what can be achieved by the working classes through their own unaided efforts reference may be made to the practice which has for a long time prevailed at the Rochdale Pioneers' Store of devoting  $2\frac{1}{2}$  per cent. of the net profits to educational purposes. The Rochdale Pioneers have thus been enabled to open 18 news rooms at their various establishments, they have also formed excellent reference and circulating libraries containing more than 15,000 volumes; they have moreover started, and to a large extent supported, classes attended by 500 students for the teaching of science, languages and technical arts<sup>1</sup>.

The remark has already been made that nothing has done so much to promote the success of the stores as strict adherence to the ready-money principle. In the first place, there are no bad debts. Nothing probably interferes so much with the success of the retail trader as the loss he incurs from bad debts, and the great amount of capital which, when credit is given, he is sure to have locked up in book debts. In the second place, it is obvious that when all the goods sold are paid for across the counter, a maximum amount of business can be carried on with a minimum of capital. It is shown from the published accounts of these stores that their capital is not unfrequently turned over ten times in the course of the year. In the third place, it is to be observed that when no credit is given, no credit need be received. The managers of these stores can pay ready money for all the goods they purchase. They consequently obtain them at the lowest possible price, and have also, as has been well described, the pick of the market. There are also many other most important advantages resulting from the adoption of the principle of giving no credit. The facility with which people are allowed to get into debt at retail shops gives a disastrous encouragement to improvidence. Credit, it has been truly said, is the great bane of the working classes. When a man is heavily in debt, not only does he too often

*The advantages of the ready-money principle.*

*Disadvantages of the credit system.*

<sup>1</sup> See the Rochdale Pioneers' Almanack for 1883.

BOOK II.  
CH. I.

become reckless, but to a great extent he ceases to be a free agent. The tradesman to whom he owes money can force him to go on dealing with him, and can charge him extravagant prices for very inferior articles. Again, it is evident that under a system of credit, the honest who do pay are charged a far higher price than they ought to be, in order to compensate the tradesman for the losses he incurs from the dishonesty of those who either do not pay at all, or who keep the tradesman waiting for his money. There is good ground for believing that if the retail business of this country were generally conducted on the ready-money principle, prices might be so much reduced that the public would gain far more than would be represented by the entire remission of the national debt. We express this opinion not simply as a vague surmise, for it has been shown at the principal stores in London that, although the goods sold there are quite 20 per cent. cheaper than they are in many retail shops, yet the business is so remunerative that a far larger profit is yielded on the capital invested in the business than is secured by the ordinary tradesman. This being the case, it appears that the credit system virtually imposes an income-tax of 20 per cent. upon all that portion of every individual's income which is expended in the purchase of commodities of ordinary consumption. It need scarcely be said that paying such a tax is equivalent to a far more onerous burden than is imposed by the interest of the national debt. It is also to be borne in mind that the credit system is scarcely less injurious to the retail trader than it is to the general public. It is well known that a large number of tradesmen fail in business, not only in consequence of their losses from bad debts, but also in consequence of their money becoming locked up in book-credits. Not long since the price list of one of the London Stores was submitted to a grocer who was carrying on a large business in a provincial town. He admitted that the prices in this list were 20 per cent. lower than those which he charged, but he said that if he were paid ready money for all the goods he sold, he was sure that he could sell his goods as cheaply as they were sold at the Stores, and he was also certain that his business would at the same time become far more profitable than before. Such con-

siderations as these induce us to think that not the least important advantage likely to result from the cooperative stores is, that they will so conclusively demonstrate to the whole country the loss produced by the credit system as gradually to lead to the almost universal adoption of the ready-money principle in all retail transactions. Although it is probable that these stores will absorb a great proportion of the retail business of the country, yet the individual trader need not fear that he will be superseded. Instead of expending his energies in vain attempts to seek the aid of the legislature in impeding the progress of these stores, he would act more wisely if he at once came to the determination that as they had secured their success by refusing credit, he might obtain a similar success by adopting the same principle in his own business. Many retail tradesmen, probably through the competition of the Stores, have lately with great advantage to themselves, adopted the ready-money principle.

We have already referred to the fact that these cooperative stores are wanting in one important element of cooperation, because no share of the profits is allotted to the managers, clerks, porters, and the other employés whose labour is essential to the carrying-on of the business. These stores may, in fact, be correctly described as joint-stock companies, which conduct their business on the ready-money principle.

When considering in a previous chapter the advantages and disadvantages of the joint-stock system, it was shown that the circumstance which is likely most to impede the success of a joint-stock undertaking is that the paid manager has not so direct or immediate an interest in the prosperity of a business as one who owns the business and has his fortunes bound up in it. Joint-stock companies may, no doubt, be freed from the difficulty to which allusion has just been made, by giving the managers and other employés a certain portion of the profits realised. They may thus be made to feel almost as active an interest in a joint-stock undertaking as if it were their own business, and carried on entirely with their own money. It therefore seems to be of the greatest importance that this plan should be adopted in the case of cooperative stores; for not only would it meet a disadvantage under

*Cooperative stores are not always completely cooperative.*

which all joint-stock companies suffer, but it would give to these stores a much more truly cooperative character than they can now fairly claim.

In describing the remarkable progress of the Rochdale society it was stated that its capital soon became far more than sufficient for the store. Consequently it was necessary to determine the best mode of employing this surplus capital. This was an extremely delicate and difficult question, but the managers of the society, by the exercise of remarkable tact and sagacity, have shown that in almost every instance they were capable of dealing successfully with it. This we think will be proved as we proceed to describe the various undertakings that have from time to time been supported by this Pioneers' Society. It is the more important that such a description should be given with as much clearness as possible, because it serves distinctly to mark the gradual development and progress of the cooperative movement.

As the business of the store at Rochdale rapidly extended, its managers were not unnaturally led to perceive the advantage of establishing a wholesale depôt of their own, instead of purchasing the various goods they sold from ordinary wholesale houses. It was moreover felt that such a wholesale society might render invaluable assistance to small struggling societies if an attempt were made to crush them by a combination of tradesmen jealous of cooperation. In 1863 this wholesale society was transferred to Manchester. It has now become a great central depôt with branches in London and Newcastle. It owns manufactories in London, Manchester, Newcastle, Leicester, Durham, and Crumpsall; and it has dépôts in Cork, Limerick, Kilmallock, Waterford, Tipperary, Tralee and Armagh for the purchase of butter, potatoes and eggs. It has buyers in New York and Copenhagen, and it owns two steamships. It also has a Bank Department with a turnover of more than 12,000,000*l.* annually. The Wholesale Society is now doing a business of more than 3,800,000*l.* a year. No individual can purchase goods from the Society; its entire business consists in selling goods to various cooperative stores. At the present time no less than 622 of these stores deal with this Society, and of this number the great majority have capital invested in it.

*The Wholesale  
Cooperative  
Society.*

Those stores which purchase goods from the Wholesale, but do not hold shares in it, are usually small struggling stores which have no spare capital. The business appears to be most admirably conducted. Under no circumstances whatever is a longer credit given than seven days from the date of invoice. The result of strictly adhering to this rule is that on transactions amounting to more than 3,800,000*l.* per annum, the amount lost by bad debts only amounts to a few pounds a year. The cost of management is unprecedentedly small; not amounting to 1 per cent. on the returns. After a fixed dividend of 5 per cent. has been allowed on capital the remaining profits are distributed amongst the retail stores in proportion to the aggregate amount of their purchases. To those stores however which have no capital invested in the Wholesale Society the share of profits allotted is only half as much as to those stores which have capital invested. The leading idea which appears to be predominant amongst the supporters of this Wholesale Society is a desire as far as possible to get rid of middlemen. In order to do this, commodities are purchased, whenever an occasion offers, directly from the producers, and as the concern develops they will undoubtedly manufacture for themselves a greater portion of the goods they sell. For instance, instead of buying Irish butter through the provision merchants who import it, they have their own agents in Ireland, who purchase it directly from the farmers. They have also already established a shoe manufactory of their own at Leicester, a biscuit manufactory at Manchester, and a soap manufactory at Durham. It is difficult to assign limits to the development to which this Wholesale Society may ultimately attain. Some of those who are connected with it already begin to feel confidence that the day is not far distant when they will obtain wheat and other agricultural produce from their own land, and when they will import tea, coffee, and sugar in their own ships from their own plantations.

It is to be remarked that as the chief motive which prompted the establishment of this Wholesale Society was to give assistance to the various cooperative stores scattered throughout the country, the goods are sold at the lowest possible price; only such an amount is charged for them

*The proposal to give the employés in the Wholesale*

BOOK II.  
CH. X.*a share in  
the profits.*

as to cover the expenses of management, and leave a sufficient margin for profit. It is also to be remarked that this Wholesale Society, like the cooperative stores previously described, is not so truly cooperative as it might be; because its managers and other employ  s do not enjoy any share of the profits, but are remunerated by salaries or wages, just in the same way as they would be in an ordinary wholesale house. At various times the proposal has been discussed to allot them a certain share of profits. The decision which may be ultimately arrived at on the subject will, in all probability, exercise a most important influence on the future of cooperation. It is sometimes said that the remarkable success obtained by such a society as the Wholesale, satisfactorily proves that it cannot be necessary to allot any share of profits to labour. The managers of this society could not possibly have displayed more ability or zeal. They are so devoted to the cause of cooperation that it is quite unnecessary to stimulate their activity by giving them a more direct pecuniary interest in the prosperity of the undertaking. Such reasoning, however, as this is surely both unsound and shortsighted. A business, however successful it may be, cannot be regarded as resting on a sure and permanent basis, if those who conduct it are not adequately rewarded, and if, taking advantage of the enthusiasm they may happen to feel for a cause, their employers give them less for their services than they could command in the open market. If this determination to deprive labour of all share of profits is persisted in, cooperative societies will become nothing more than ordinary joint-stock companies in which a great part of the capital is owned by the working classes. We do not in any way desire to underrate the advantages of the movement even if it simply assumes this form. It must be an immense benefit to the working classes to obtain the commodities they purchase at a cheaper rate, and to have placed within their reach an eligible investment for their savings. Prudential habits will in this way be powerfully stimulated, and without an increase of prudence no permanent improvement can be effected in the condition of the working classes. Again, it is impossible to place too high a value upon the educational influence which may be exercised upon the members of cooperative societies. A workman



who has a few pounds invested in a cooperative store soon understands what are the true functions of capital. Instead of thinking that capital is some mysterious agent specially created to oppress and injure labour, he becomes as much impressed as an individual employer can be that capital is not less essential to industry than labour, and that consequently it possesses a not less indefeasible claim to receive its due reward. But the friends of cooperation cannot too carefully remember that the mere fact of calling societies cooperative will do nothing to improve the industrial position of the labourer, if he is to enjoy no share in the profits, for we believe all experience has shown that a joint-stock company is not likely to be a less severe, or a more liberal taskmaster than the individual employer. Cooperation moreover loses its chief industrial advantage if the labourer is not permitted to participate in profits: for, as we have endeavoured repeatedly to explain, the great defect in our present industrial economy is that it fails to make labour as efficient as it ought to be, because it has not a sufficiently direct and immediate interest in the success of the work upon which it may be engaged. It is this defect which may be remedied by cooperation; and it is because cooperation, when truly carried out, may remedy this defect, that we regard the application of the cooperative principle as one of the most effective of all agencies for securing improvement in the economic condition of the country.

As we have now shown how the success of cooperative stores led to the establishment of the Wholesale Society, we will next proceed to describe various other developments of the movement. The large profits realised by the stores brought so forcibly home to the working classes the advantages of carrying on a retail trade on their own account, that they very naturally thought that they should be able to secure still greater advantages if the labourers could form themselves into associations to carry on some of the various trades in which they were employed. One of the first experiments of this kind in what may be termed cooperative productive industry was made at Rochdale in 1855. Previous to this time, however, several cooperative trading establishments had been in successful working in Paris. Some of these we will here-

*Coopera-  
tive pro-  
duction.*

BOOK II.  
CH. X.*The cooperative cotton mills.*

after describe. But, reverting to what was done at Rochdale, we find that, as was the case at the Pioneers' Store, the experiment of applying cooperation to productive industry was commenced on a very small scale. In the first instance only a room was rented, and in it were placed a few looms. The cotton trade, however, was then in the height of its prosperity, and large profits were consequently realised even from so imperfect an effort. Encouraged by this first success, the promoters of the undertaking determined to extend their operations, and part of a mill was accordingly rented. Their capital at that time was about 5000*l.*, and the system of conducting the business was as simple as it was excellent. A dividend of five per cent. on capital was the first charge on profits. After this dividend had been secured, the remaining profits were divided into two equal shares. One of these shares was given as an extra dividend on capital, and the other was distributed as a bonus amongst the labourers employed. Each labourer's share of this bonus was proportioned to the aggregate amount of wages he had earned. The most therefore was given to those who worked with the greatest regularity and the greatest skill; and as, in addition to this bonus, the wages current in the trade were paid, it was natural that the best efforts of those employed were stimulated, and the most prudent operatives in the locality were powerfully attracted to an undertaking where their labour received an extra remuneration, and where they obtained a lucrative investment for their savings. The undertaking developed so rapidly that soon a larger mill was required than any that could be rented. It was therefore resolved to build one: it was commenced in 1856, and completed in 1860, at a cost of 45,000*l.* The mill was fitted with the best machinery and was complete in every respect. So confident were the workmen of the success of the scheme that the outlay involved in the erection of this mill did not exhaust the capital they were willing to invest, and accordingly a second mill was soon commenced. These mills had scarcely time to get into full working when the breaking out of the civil war in America brought the cotton trade of Lancashire into a state of unprecedented depression. Long after many of the surrounding

manufactories had been closed the cooperative mills courageously struggled on. The difficulties, however, which had to be contended against were of so entirely unusual a character that no one can have any just reason to feel less confidence in the cooperative movement because an association of workmen were unable successfully to contend against circumstances so exceptional as to be quite out of the current of ordinary calculation. As the cotton trade gradually revived after the close of the American civil war, many cooperative cotton mills were established in different parts of Lancashire. They have obtained a varying amount of success. One of the most prosperous of these manufactories appears to be the Sun Mill at Oldham. Cooperation certainly seems to flourish more in this town than in any other place, except Rochdale. It has been calculated that the working classes of Oldham have no less than 500,000*l.* invested in various cooperative undertakings. Of this amount not less than 100,000*l.* is invested as share capital in the Sun Mill. During the last few years this manufactory has on an average realised a profit of 12½ per cent. This certainly is an eminently satisfactory result when we remember that the cotton trade during a portion of this period was much depressed.

It is to be remarked that in these manufactories, which have been established by associations of workmen, the plan has been very generally departed from of allotting to labour a share of the profits. When depressed trade brought adverse times to the Rochdale Mill, one of the first things that happened was a contention as to the right of labour to share in the profits. Those who possessed capital in the concern seemed to think that they were unnecessarily generous, and were making a sacrifice for which they received no return, if they surrendered any fraction of profits to labour. Antagonism of interest thus arose in every respect similar to that which unhappily so widely prevails between employers and employed. The question whether labour should enjoy any share of profits is still being keenly disputed amongst cooperators, and it is difficult to say how it will be ultimately determined. There certainly seems to be good reason to hope that the party will ultimately prevail who, having obtained an insight into the true nature of cooperation, assert that the

*The question of allotting a share of the profits to labour.*

*It is much easier to apply the principle of cooperation to distribution than to production.*

bonus which is distributed amongst labourers is not a sacrifice on the part of capital, but is rather a measure of the increased efficiency given both to capital and labour; and that if such a bonus is withheld from labour, co-operation loses that which gives it its chief vitality; and a cooperative society becomes little else than an ordinary joint-stock company.

Before leaving the subject of cooperative production, it is desirable to point out that the cooperative principle can be applied much more easily and much more simply to the distribution than to the production of wealth. It is, for instance, evident that a cooperative store has not to contend with many difficulties which stand in the way of a cooperative manufactory. As the business of a store is conducted on the ready-money principle, scarcely any risk need be incurred. It is not necessary to make any speculative purchases. The goods can to a great extent be bought as they are wanted. The returns in such a business are regular. The trade done in one quarter differs little from that done in the previous quarter, and there is no difficulty in contracting or expanding the business if it should be requisite to do so. A manufacturing business is, however, from the nature of the case, speculative and uncertain. Profits often depend almost entirely upon purchasing raw material at a favourable time. Sometimes the trade suddenly becomes so depressed that it is necessary to withhold the manufactured goods from the market. This of course cannot be done unless there is a reserve fund to fall back upon. It is probable that the cotton trade more than any other industry in the country has always been characterised by violent fluctuations. Prosperity and adversity seem to succeed each other in regular cycles, for if exceptionally high profits are realised for two or three years, there is sure to be a period of corresponding depression, when scarcely any profits at all can be secured. As an example it may be mentioned that from the published accounts of the Sun Mill at Oldham, it appears that the average profits during the last three quarters of 1869 were only 9 per cent., whereas the profits during the first three quarters of 1870 were 22 per cent. Sometimes the profits are more than three times greater in one quarter than in the quarter immediately

preceding or succeeding it. Thus in the quarter ending in June, 1872, the profits were returned at no less than 30 per cent., whereas in the quarter ending in September in the same year they sank to 9 per cent. It is obvious that the greatest prudence and forbearance are required in order that a business which is liable to such severe and sudden fluctuations should be successfully carried on. There is, of course, a constant temptation to appropriate too large a portion of the exceptionally high profits yielded in prosperous years, and thus leave an inadequate reserve to meet adverse times. That this temptation has been in many instances successfully resisted by associations of workmen, may justly be regarded as affording the most satisfactory evidence of the capacity of a considerable number of the labouring classes to carry on most complicated and difficult industrial undertakings. The experiment of applying the cooperative principle to so speculative and fluctuating a trade as the cotton manufacture was an extremely bold one; for there is no other branch of industry in which associations of workmen have to resist so many temptations and to struggle against so many obstacles. Cooperative production may no doubt be far more easily carried on in those trades where the returns are more regular, and where the amount of capital which has to be invested in plant and material is small, compared with the amount expended in wages. One of the earliest and most successful cooperative productive societies in this country was established by a body of workmen who were engaged in making picture frames. Such a trade manifestly requires very little capital; all the capital in fact that is needed can be readily supplied by those who are employed as workmen in the society, and thus there is much less chance of a conflict arising between capital and labour. It may also be mentioned that another most successful cooperative productive undertaking is a boot and shoe manufactory at Northampton. In such a trade it is obvious that a small amount of capital has to be invested in proportion to the business done, and the returns are much more regular than in the cotton trade. One great obstacle to the success of cooperative production is no doubt removed when the necessary capital required for carrying on a business can

*Examples  
of success-  
ful coope-  
rative pro-  
duction.*

BOOK II.  
CH. X.*Cooperative  
production in  
Paris.*

be entirely provided by those who also supply the requisite labour.

Cooperative production has assumed a much more important development in France than in England. At the present time there are certainly not more than two or three cooperative productive associations in London: whereas in Paris there are more than 40. These societies embrace a great number of different trades, such for instance as pianoforte making, house-painting, tailoring, file-cutting, spectacle making, carpentering, basket making, gas-fitting, paving, furnishing, market gardening, etc. At the time of the revolution of 1848, various attempts were made in France to encourage the establishment of cooperative productive societies by granting them state loans; and it is particularly worthy of remark that in no single instance has any society which obtained state assistance, secured any permanent success. One of the societies started in 1849, viz. that of the pianoforte makers, received no state assistance and is now one of the most successful of the cooperative institutions in Paris. It had an extremely humble beginning; as, in the first instance, 14 workmen subscribed a capital of about £2 each. This society now consists of 18 members who employ in addition a certain number of auxiliary labourers who are paid by piece work, and the members are elected from among the auxiliaries. The freehold of the building in which the business is carried on belongs to the association and represents, together with plant and material, a capital of about £11,000.

The cooperative associations in Paris have obtained a varying amount of success. Many of them have departed from the principle, which may be regarded as the essence of cooperation, of employing no labour without allotting to it some share of the profits. This however ought not to cause any want of confidence in the future of cooperation. It will no doubt happen that the complete application of the principle will be arrived at by gradual steps, and it should be remembered that even in those cases where some of the labour employed does not participate in the profits yet even here the labourers who are members of the association secure the important advantage of themselves supplying the capital which their industry requires.

Without attempting to predict the exact phases through which cooperation will pass, it can scarcely be doubted that the principle is so well adapted to agriculture, that it is certain some day to be applied to that particular branch of industry with the most beneficial results. Hitherto cooperation has never been applied to agriculture except in a very imperfect form; but these experiments, though very incomplete, have been most encouraging and satisfactory. The one that has attracted the most attention was made nearly forty years since by Mr Gurdon, on his estate at Assington, near Sudbury, in Suffolk. Mr Gurdon was so much impressed with the miserable condition of the agricultural labourers who were employed on his estate, that he was prompted to do something on their behalf. When therefore one of his farms became vacant, he offered to let it at the ordinary rent, 150*l.* a-year, to the labourers who worked upon it. As they, of course, had not sufficient capital to cultivate it, he in the first instance lent them the requisite stock and implements. The labourers were, in fact, formed into a company in which there were eleven shares, and no labourer was permitted to hold more than one share. The plan was so eminently successful that in a few years sufficient had been saved out of profits to repay all that had been advanced, and the stock and implements became the property of the labourers. Each share has greatly increased in value. Mr. Gurdon was so much encouraged, not only by the pecuniary advantages secured to the labourers, but also by the general improvement effected in their condition, that some years afterwards he let another and larger farm on similar terms. Although no statement of accounts has ever been published, the remarkable pecuniary advantages secured to the labourers is proved by the fact that, after enjoying at least as high wages as were paid in the district, they were able in a few years to become the owners of a valuable property, consisting of the stock and implements on the farms. One of the most significant and hopeful circumstances connected with the experiment is, that it was not carried out by a picked body of men; and if so much could be done by labourers who were probably amongst the worst educated in the country, it may be fairly concluded that when the intelli-

*Coopera-  
tive agri-  
culture.*

BOOK II.  
CH. X.

*Cooperative agriculture secures the advantages of peasant proprietorship, without its disadvantages.*

gence of our rural population has been better developed, cooperation may be applied in a more complete form to agriculture, and with even more striking results than have been obtained at Assington. Agriculture has perhaps suffered more than any other industry from the listlessness and apathy of the labourer, and the only way of removing this listlessness and apathy is to give the labourer a more direct and active interest in his work than he possibly can feel, so long as he simply works for fixed wages. In the chapter on peasant proprietors we had frequent occasion to describe how powerfully the industry of the labourer is stimulated by the feeling of property. When he cultivates his own plot of ground, he exerts himself to the utmost, because he knows that he will enjoy all that is yielded by his labour. Each year, with the extended use of machinery in agriculture, it is becoming more advantageous to carry on farming on a large scale. When therefore, cooperative agriculture becomes practicable, land may be cultivated by associations of labourers, and thus many of the advantages associated with the system of peasant proprietorship may be secured, whilst at the same time the disadvantages of small farming may be avoided. The progress towards cooperative agriculture will no doubt be slow and gradual. The labourers will have to advance towards it by many preliminary steps. As shown in the last chapter, many schemes of modified cooperation, based on the principle of copartnership or profit sharing, have been brought into successful operation. These schemes by affording valuable training to the labourers will, it may be hoped, enable them to triumph over the difficulties associated with cooperative production.

It must not be supposed from the striking success which in numerous instances has been achieved by cooperation that a cooperative institution is not subject to many of the same dangers which beset ordinary commercial undertakings. If a want of judgment is shown in selecting the managers, if care is not taken to secure both intelligence and honesty, failure must of course, inevitably result. All that need be contended for by the advocates of cooperation is that advantages are certain to result when the principle is judiciously and skilfully applied. As an instance of want of judgment it may be mentioned that the idea



seems to have found much favour among many cooperators that a cooperative bank should be established on the principle of allowing a fixed rate of interest of 5 per cent. on deposits. It seems to be thought that 5 per cent. is the proper rate of interest to be paid, but it need scarcely be pointed out that it is impossible for a cooperative bank to allow 5 per cent. when the current rate of interest is below that amount.

Hitherto cooperative banking has not obtained any marked success in England; we cannot, however leave the subject of cooperative banking without referring to the origin of the movement which took place in Germany in the year 1851, under the direction of the late Herr Schulze-Delitzsch<sup>1</sup>. The object of these cooperative or credit banks, as first started under the wise supervision of this gentleman, was to give to the labourer, through the agency of self-help, direct access to the capital necessary to production. It is evident that an individual labourer cannot obtain the use of borrowed capital, for the simple reason that the security he is able to give for its repayment is insufficient; but what is true of a single artisan ceases to be true of an association of artisans jointly and severally responsible for the debts of every member of the association, and especially where the terms of membership are such as to reduce to a minimum the risk of loss through the dishonesty or the incompetence of those who join it. Such associations were formed through the influence of Herr Schulze-Delitzsch; the terms of the association are so drawn up as to exclude all but bonâ fide labourers, and as the cardinal principle of the association is self-help, the candidates for admission must give substantial proof that they are able to help themselves. The circumstances of the candidate for admission are always carefully enquired into before he is allowed to join. He is moreover required to become a shareholder in the concern. It may be urged that if all these securities are required to prove a man's honesty and his power to pay, he would have no difficulty in obtaining a loan independently of the association. A very little consideration will, however, show that this is not the case. The security offered by an individual workman can in the vast majority of instances only be a personal

*The co-operative banks in Germany, founded by Herr Schulze-Delitzsch.*

<sup>1</sup> Herr Schulze-Delitzsch died April 29, 1888.

BOOK II.  
CH. X.

security; if therefore he obtained a loan at all it would be on exorbitant terms. The owner of capital advanced to an individual workman would run a very great risk of losing it altogether: if, for instance, the workman died or absconded, the owner of the capital would have no remedy. But the credit of a workman rests on altogether a different footing if he belongs to an association every member of which is jointly and severally responsible for the debts of all the rest. One fundamental principle of the Schulze-Delitzsch Credit Associations is that of unlimited liability: this principle makes the credit of the association unimpeachable; it also exercises an important influence in keeping up due watchfulness on the circumstances of the candidates for admission. The capital required for the working of the associations is obtained in two ways; first, by the subscriptions of members, and secondly, by loans contracted in the open market on the credit of the association. The bulk of the business is carried on with capital obtained in the latter way. To give some idea of the proportions which this movement has assumed in the country in which it originated, it may be mentioned that in the year 1865 there were 961 of these Credit Associations in existence in Germany. Of these about one-half or 498 sent in their statistics to the central bureau, showing that they then possessed nearly 170,000 members and that the money they annually advanced was equal to 10,000,000<sup>l</sup>. In 1877 there were 1827 of these associations, with over 1,000,000 members, owning 8,000,000<sup>l</sup>. of capital, with 20,000,000<sup>l</sup>. more on loan, and doing business to the amount of 110,000,000<sup>l</sup>.

The progress of cooperation was for some time materially impeded in England by various legislative restrictions. Until 1867 no cooperative society was permitted to invest more than 200<sup>l</sup>. in any other society. This restriction at one time brought a very serious danger upon the Rochdale Pioneers. Having more capital than they could use in their own business, a portion of their capital, in consequence of their not being able

*In England co-operation has been retarded by legislative enactments.*

<sup>1</sup> See the eleventh Report of the Trades' Union Commissioners, Vol. II. Appendix, pp. 165—178. This part of the Report is by Mr R. D. Morier.

<sup>2</sup> See *Economics of Industry*, by Mr and Mrs Marshall, p. 228.

to invest more than 200*l.* in any other society, was lying idle. It was therefore decided to repay to some of the largest shareholders a portion of the money which they had invested in the society. No sooner had this process of repayment commenced than a rumour not unnaturally gained credence that the wealthier shareholders had lost confidence in the concern, and were withdrawing their capital from it. A panic ensued, and such a run was made by frightened shareholders upon the funds of the society that it was for some time in imminent peril. It is impossible to have a more instructive example of the widespread mischief which may result from meddlesome and ill-considered legislation. As another instance of the manner in which the development of cooperation has been retarded by legal impediments, it may be mentioned that until two Acts were passed in 1867 and 1871 cooperative societies could not buy or sell land except for the purposes of their special trade. Now that these societies have been empowered to buy and sell land, many of them have invested a considerable portion of their surplus capital in the erection of houses for their members. The Rochdale Pioneers have already expended many thousands in this way, and it need scarcely be said that it is not possible to render the working classes a greater service than to make it more practicable for them to obtain suitable dwellings. The members of a cooperative society may obtain their houses just as the customers of a cooperative store, at the lowest possible price, since the object of investing the money of the society in building houses is not to obtain a large profit, but to secure the best possible house accommodation for the members of the society. Various other schemes have from time to time been propounded with the object of improving the houses of the poorer classes. These schemes, though not cooperative in the sense in which we have employed the word, are based on the principle that much more can often be done by an union of several small capitals than can be done by each of these small capitals working separately. Thus, if a hundred men subscribed 200*l.* each, with the 20,000*l.* thus collected a block of buildings could be erected which would provide each member with much better accommodation than if each had expended his 200*l.* in building

BOOK II.  
CH. I.*Building societies.**The operations of the Artisans', Labourers', and General Dwellings Company described.*

a house for himself. Building societies afford important facilities for workmen becoming the owners of the houses in which they live. These societies gather together a great number of small capitals, and employ the fund thus collected in making advances to those who wish to build or purchase a house. The house itself is a security for the money advanced, and the loan is repaid by small weekly or monthly instalments. It is difficult adequately to estimate the good which is done by these societies. They have undoubtedly enabled many hundreds of thousands of workmen to become the proprietors of their own houses. It is estimated that at the present time (1883) there are in the United Kingdom 750,000 members of Building Societies<sup>1</sup>.

A few years ago a society was started known as the Artisans', Labourers', and General Dwellings Company, which, though possessing in many respects the character of an ordinary building society, yet has so many peculiar features of its own that it will be desirable to give a brief description of the manner in which it carries out its operations. This society not only assists the occupier of a house in acquiring it as his own property, but also encourages workmen to become the builders of their own houses, and, further, takes security that the houses shall be built as part of a general scheme, strict attention being paid to sanitary and other regulations. In order to carry out these desirable objects, the society in the first instance purchases a tract of building ground. Upon this ground roads and drains are laid out, and all the other necessary preparations are made for building. It is then decided that a certain number of houses shall be erected; it is thus provided that too many houses shall not be crowded together, and a cer-

<sup>1</sup> It is remarkable that Building Societies have obtained little development in Scotland or Ireland compared with England; for of this total of 750,000 members, only 14,000 belong to Scotland and 7000 to Ireland. No satisfactory explanation has, we believe, been given of this striking difference between England and Scotland. There is a still greater disparity in the number of members of Friendly Societies in the two countries. Part of the difference is probably due to the fact that the system of registration of Building and Friendly Societies is not so complete in Scotland as in England; but after making due allowance for this, it seems difficult to resist the conclusion that the thrift for which the Scotch are proverbial has not hitherto taken the form of inducing them to place their savings in these societies.

tain amount of garden ground, when the occasion permits, is reserved for each house. Anyone who wishes to build a house obtains from the society an advance of money, which he can repay by weekly, monthly, or yearly instalments. Although houses of different character and size are erected, yet various regulations with regard to drains, ventilation, etc., are strictly enforced. At Salford sufficient land was purchased by the society for the erection of 76 houses. In Birmingham three estates have been purchased, on which it is proposed to erect 600 houses. Probably, however, the most successful and the most extensive scheme yet carried out by the society has been in the neighbourhood of London on what is known as the Shaftesbury Park Estate. This estate is close to the Clapham Junction railway station. Upon it 1199 houses have been erected, yielding an annual rent of £22,699 and ground rents of £742. A lecture-hall and schools have been erected, a recreation ground has been reserved, and it is proposed to rent a dairy-farm in order to secure a supply of pure milk. Similar undertakings have been to a large extent completed in another place, close to the Harrow Road, known as the Queen's Park Estate, and further operations are contemplated at Hornsey<sup>1</sup>. It need scarcely be said that great advantage must result from encouraging workmen to build their own houses. In an account of Shaftesbury Park it is stated<sup>2</sup>: "The whole shows what an amount of practical ingenuity a body of workmen (for each man contributes his suggestions) can bring to bear on a project on which the men's hearts are set, and, above all, in passing through those lines of streets it is impossible to forget that to a great extent the builders are the occupiers. The men are working on the estate cheerfully, with the evident conviction that it is their own property, and, moreover, with the look of men who know that it is no 'charity' scheme in which they are concerned, but one of complete independence." It need only further be remarked that there seems to be nothing to prevent the operations of the society being almost indefinitely extended.

*The  
Shaftes-  
bury Park  
Estate.*

<sup>1</sup> See the Annual Report and Balance-sheet of the Artisans', Labourers' and General Dwellings Company, 1882.

<sup>2</sup> See *The Times* of Nov. 14, 1878.

BOOK II.  
CH. I.

*The essence  
of coopera-  
tion is self-  
reliance.*

We have now described some of the more important results of cooperation, and we have also indicated some of the probable phases of its future development. Anyone who considers what it has already effected, and what it is capable of doing in the future, must, we think, come to the conclusion that we may look with more confidence to cooperation than to any other economic agency to improve the industrial condition of the country. It cannot be too carefully borne in mind that those who have achieved the most striking success in cooperation have not been assisted by any extraneous aid. They have placed their chief reliance in union of effort, in prudence, and in self-denial. In striking contrast to this, we shall in the next chapter describe various socialistic schemes, which, far from not depending on any extraneous aid, are to be carried out through the direct intervention of the State.

## CHAPTER XI.

### STATE SOCIALISM AND THE NATIONALISATION OF THE LAND.

IT has been pointed out in a previous chapter that the most characteristic feature in the socialism of the present day is the reliance which it places on the intervention of the State. The most distinguished advocate of this new form of socialism was probably Lassalle; between him and the late Herr Schulze-Delitzsch there was for many years in Germany a keen and active contest. They respectively became the founders of two rival schools of social and industrial reformers, and there was in almost every respect the widest divergence in the ideas propounded by each of these schools. Herr Schulze-Delitzsch gave, as we have seen, a most important stimulus to the cooperative movement; and the guiding principle which influenced him was that the people were to rely for their improvement upon self-help. Lassalle, on the other hand, thought that what the people chiefly needed was a greater amount of aid from the State. The movement which he set on foot became embodied in the society known as the International. The International put forward various proposals, nearly all of which involve State intervention. The agency however on which the Internationalists, and the socialists generally of the present day, place by far the greatest reliance is the scheme which is known as the nationalisation of the land and the other instruments of production. As this plan of nationalisation may be regarded as the most important development of State socialism, it will be desirable to consider it before describing other socialistic schemes the adoption of which would involve

BOOK II.  
CH. XI.

*Two  
schools  
of Social  
Reformers  
headed re-  
spectively  
by Las-  
salle and  
Schulze-  
Delitzsch.*

*Nationali-  
sation of  
the land*

BOOK II.  
CH. XI.

as advocated by  
Mr Wallace and  
Mr George.

pecuniary aid from the State. The subject of nationalisation of the land has moreover lately attracted special attention in consequence of two books which have been recently published on the subject, the one by Mr Wallace<sup>1</sup>, the well-known naturalist, the other by an American writer, Mr Henry George<sup>2</sup>. It has rarely happened that a book dealing with social and economic questions has been more widely read than Mr George's work. It therefore becomes the more important carefully to examine the proposals there advocated. Although Mr George writes in a style which is often particularly attractive, yet we have frequently found it extremely difficult to arrive at the exact character of his proposals. There seems, however, little room for doubt that if his scheme were carried out, the existing owners of land would obtain no compensation at all, or would receive as compensation an amount which would be only equivalent to a small proportion of the present selling value of their property. Nothing, in our opinion, can be more unjust than for the State to take possession of land without paying the full market price to its owners. It is sometimes urged in defence of such a course that the land originally belonged to the people, and that the State had no right to alienate national property in order to enrich a few favoured individuals. But the question as to whether or not it was expedient to have so completely relinquished the rights which the State, as representing the nation, originally possessed in the land, appears to us to have no bearing upon the question of appropriating land at the present time without giving adequate compensation to existing owners. Land has changed hands an indefinite number of times since the principle of private property in land was first recognised; and it would consequently be most indefensible if the State were to take possession, either in whole or in part, of the land of the country. In describing the injustice and inexpediency of the suggested schemes of land nationalisation, it must not be supposed that it would be desirable for the State to surrender its proprietary rights in the land in those countries where it still possesses them. In India, for

<sup>1</sup> *Land Nationalisation, its Necessity and its Aims*, by Alfred Russel Wallace.

<sup>2</sup> *Progress and Poverty*, by Henry George.



example, almost the whole of the land is owned by the State; the cultivator, instead of paying rent to a private land-owner, pays it to the State in the form of a land tax; the land revenue which is thus yielded amounts to about 22,000,000*l.* a year, and represents a sum nearly equivalent to what is raised by all the imperial taxes that are imposed in India. As evidence of the fact that the cultivators would not be necessarily better off if the State had relinquished its proprietary rights in the land, it may be mentioned that by the celebrated permanent settlement of Lord Cornwallis in 1793, over a considerable portion of Bengal the proprietary rights were transferred to the tax-collectors or zemindars for a fixed annual payment. The result has been that with the increase in wealth and population, the cultivators in the permanently settled districts pay, in the form of rent to the zemindars, three or four times as much as the zemindars pay to the Government. A large amount of revenue has consequently been sacrificed for the benefit of a special class, whilst the cultivators' position has been in no way improved; but on the contrary, the injury which has been inflicted on them may in some degree be measured by the amount of the additional taxation which they have to bear, in consequence of a large amount of revenue having been needlessly sacrificed. If the permanent settlement in Bengal had never been effected, the additional revenue which would now be obtained from the land would be sufficient to enable the Government to repeal so burdensome an impost as the duty on salt.

The extent to which it is expedient for a Government to dispose of its proprietary rights in the land, suggests considerations of the utmost importance for many recently settled countries, such for instance as Australia. In that country vast tracts of land have been sold by the Government, and when the amount received is used as ordinary revenue the enquiry is at once suggested whether it can be wise to adopt an arrangement which virtually allows capital to be devoted to income. We cannot help thinking that it is unadvisable for a State thus completely to divest itself of the proprietary rights it possesses in the land. Although we believe that too much importance can scarcely be attributed to the economic advantages which

BOOK II.  
CH. XI.

*In those countries where the State possesses proprietary rights in the land it is generally expedient to retain them.*

BOOK II.  
CH. XI.

result from associating the ownership with the cultivation of the land, yet the industrial stimulus which is given by the feeling of ownership would, we think, still continue in active operation if in such a country as Australia the Government, instead of completely relinquishing its rights in the soil, retained some share of the property in the form of a land tax which, instead of being commuted as it has been in our own country for a fixed money payment, should be equal to some small proportion of the annual value of the land. If, for instance, in Australia the land had been sold with the condition that one-tenth or even one-twentieth of its annual value should be paid in the form of a land tax, no discouragement would have been offered to enterprise, and the revenue which might be yielded as the country advanced in population and wealth would be a valuable national resource, which might be utilised in rendering unnecessary the imposition of many taxes which will otherwise have to be imposed.

It has been thought necessary to make these remarks in order to bring out with distinctness the very different issues which are involved in surrendering proprietary rights which are still possessed by the State, or in resuming possession of those rights when, as in England, they have been long since surrendered. In considering the proposals which are now being brought forward for nationalising the land of England, it will be desirable, in the first place, to endeavour to describe some of the consequences which would result if no compensation, or inadequate compensation, were given to existing owners; and we shall then proceed to discuss the subject on the supposition that full compensation is given, the land being bought by the State at its present market value. As a result of careful inquiry, we have come to the conclusion that until the appearance of Mr George's book, almost everyone in England who advocated nationalisation, even including the members of such a society as the International, never entertained the idea that the land should be taken without full compensation. In England, perhaps more than in most countries, a respect for the rights of property is widely diffused; and the fact has certainly not been lost sight of by many of the working classes, that if the policy of taking land without compensation were once embarked upon, it

*If the land is nationalised, is compensation to be given to existing owners?*

*If not, nationalisation is flagrantly unjust.*

is not only the property of the wealthy owner which would be confiscated; the small proprietor who by years of careful thrift and patient toil had acquired a plot of land, he too would be engulfed in this whirlpool of spoliation. It would be impossible to say where this wholesale appropriation would stop. The large landowner and the peasant proprietor would not be its only victims. If the State were to take without compensation all the land of the country, the workman who through the agency of a building society is now able to call his house his own would find himself dispossessed of the land on which it stands. If the nationalisation of the land without compensation is thus flagrantly unjust, it can, we think, be shown that nationalisation with compensation, though not so unjust, would prove incalculably mischievous in its consequences. In the opinion of a well-known statistician, Mr Robert Giffen, the annual rent of the agricultural land in this country is about 66,000,000*l*. Take this at 30 years' purchase, and the amount of compensation required for the agricultural land alone would be 2,000,000,000*l*., or nearly three times the amount of the National Debt. And when the State had become the possessor of all the land, what is going to be done with it? What principles are to regulate the rents to be charged? Who is to decide the particular plots of land that should be allotted to those who apply for them? If the rent charged is to be determined by the competition of the open market, in what respect would a cultivator be better off if he paid a competition rent to the State instead of to a private individual? and if the market price is not to be charged, who is to bear the loss? from what fund is the deficiency to be made good? There is only one answer to this question; it must be made good from the general taxation of the country; and increased taxation means still more taken from the hard-won wages of the people. But the subject may further very properly be looked at from another point of view. If the Government owned the land and once began letting it on any other terms than those which regulate the transactions of ordinary commercial life, there would be opened indefinite opportunities for State patronage and favouritism, and the demoralising corruption that would ensue would be more far-reaching and more baneful

BOOK II.  
CH. XI.

*But if full compensation is given, the scheme would be a financial failure.*

BOOK II.  
CH. XI.

*Unless rack-rents were charged the annual deficit would be enormous. Moreover if rack-renting were abandoned the door would be opened to endless corruption and favouritism.*

in its consequences than even the pecuniary loss which the scheme would involve. If land was to be allotted as a matter of patronage, who would have the fertile plots and who would be relegated to those barren soils which, under the most favourable conditions, will scarcely pay for cultivation? It would therefore appear that the nationalisation of the land would inevitably lead to this dilemma:—if the land were let at less than its market price, not only would there be an unlimited field for State patronage with all its attendant corruption and demoralisation, but the difference between the amount at which the land would be let, and its letting value, if a competition rent were charged, would involve an enormous annual deficit that would have to be made good at the expense of the general body of the tax-payers of the country.

It is further to be remarked that this deficit would by no means represent the whole loss that would be involved, because it cannot be doubted that the raising of so large a loan as 2,000,000,000*l.* which, as has been stated, is the estimated value of the agricultural land, would considerably affect the credit of the State. The Government would have to borrow upon less favourable terms; and the more unfavourable were the terms, the greater would be the difference between the amount yielded by the land and the annual interest on the loan, consequently the greater would be the loss which the community would have to bear. If in order to escape from this loss, and to provide a remedy against the difficulty of distributing the land among the various applicants, it should be decided, instead of letting the land at what is termed a fair price, to offer it to be competed for in the open market, the rents that would then be paid would be rack-rents; and in what better position would the cultivators be, if instead of paying a rack-rent to a private individual they paid at least as high a rent to the State? Instead of the position of the cultivator being improved, he would, in numerous instances, be far worse off than he was before. A private owner can take account of many circumstances which it would be scarcely possible for the State to regard. It not unfrequently happens, for instance, under the present system, that the claims of an old tenant for consideration are not ignored, and there are many landowners

who would not think of displacing an old tenant, although it might very likely happen that if the land were put into the market a somewhat higher rent might be obtained. It cannot, we think, be too strongly insisted upon that, in order to provide a security against favouritism and patronage, the State would have to administer its property according to strictly defined rules. If the State owned the land, rent would have to be levied with just the same rigour as an ordinary tax, and thus, so far as the cultivators are concerned, the result of nationalisation would be that they would hold the land under a system of the most rigid rack-renting.

It is sometimes contended that if the land were nationalised the disadvantages, to which reference has just been made, would be counterbalanced by the introduction of an improved system of land tenure. Thus, it is said, if the cultivator rented directly from the State, he would be protected against capricious eviction, and would be secured adequate compensation for any improvements that might be effected in the land through his capital and skill. Nothing is farther from our intention than in any way to underrate the importance of the cultivator enjoying these advantages; but it has been shown by the Irish Land Act of 1881, and by the Tenants' Compensation Bill for England and Scotland which is now before Parliament, that it is possible to confer these advantages on the cultivators without bringing into operation all the evils which, as we believe, would result from nationalisation. The idea which forms the foundation of all these schemes of nationalisation is, that with the advance in the wealth and population of the country the value of land constantly increases, and that the portion of the additional value which does not result from an application of capital and labour, but is the consequence of the general progress of the nation, is a property belonging rather to the nation than to the individual, and might therefore be fairly appropriated by the State. Practical effect was sought to be given to this idea in the proposal made by Mr J. S. Mill not long before his death, that the State should appropriate what he termed the unearned increment in the value of land. But although this proposal with regard to the "unearned increment" of the land, sanctioned by his

*The benefits arising from nationalisation might be obtained by other means.*

*Irish Land Act, 1881.*

*Tenants' Compensation Bill, 1883.*

*Mr Mill's doctrine of the "unearned increment" examined.*

BOOK II.  
CH. XI.

*Why should the State appropriate the unearned increment on land, but not the unearned increment on other property?*

*The real end of land reform is to free land and capital invested in land improvements from legal re-*

high authority, is deserving of most careful consideration, it seems to us that it can neither be defended on grounds of justice nor expediency. If the State appropriated this unearned increment, would it not be bound to give compensation if land became depreciated through no fault of its owner, but in consequence of a change in the general circumstances of the country? Although there is perhaps no reason to suppose that the recent depression in agriculture will be permanent, yet it cannot be denied that in many districts of England there has been a marked decline in the selling value of agricultural land within the last few years. If, therefore, the State in prosperous times appropriates an increase in value, and if in adverse times the falling-off in value has to be borne by the owner, land would at once have a disability attached to it which belongs to no other property. If we purchase a house, a manufactory, or a ship, we take the purchase with its risks of loss and chances of gain; and why with regard to land, and to land alone, should a purchaser have all the risks of loss and none of the chances of gain? If thirty years ago 100,000*l.* had been invested in agricultural land, and if at the same time another 100,000*l.* had been invested in such first-class securities as railway, banking, insurance, water or gas shares, it can scarcely be doubted that if the latter investment had been made with ordinary judgment there would be, at the present time, a very much larger unearned increment of value upon the shares than upon the land. The increase in the value of the shares would have taken place quite independently of any effort or skill on the part of the owner, and therefore, it may be asked, why should this unearned increment remain as private property, if the unearned increment in the value of land is to be appropriated by the State?

We cannot help thinking that such proposals as those we have been considering, either to nationalise the land or to appropriate the unearned increment, would take us with regard to land reform exactly in the opposite direction to that in which we ought to move. If we associate with the ownership of land any disability or disadvantage which does not belong to other kinds of property, a direct discouragement is offered to the investment of capital in the improvement of the soil: whereas what above all things

should be striven after is, to promote the free flow of capital to agriculture. At the present time so great is the accumulation of capital in this country that it flows in a broad and continuous stream towards almost every quarter of the world. This takes place at a time when the productiveness of millions of acres of land in this country might be increased by improved cultivation. As the field for the employment of labour on the land extended, wages would be increased, a stimulus would be given to the general industry of the country, and the extra food which would be yielded would bring additional comfort to every humble home.

It therefore appears to us, as previously stated, that the chief end to be sought in the reform of land tenure is to free the land from all restrictions which limit the amount of land which is brought into the market. The existing laws of primogeniture, settlement, and entail, combined with a costly system of conveyancing, impede the transfer of land, and thus lessen the opportunities of associating the ownership with the cultivation of the soil. Such an association would, in our opinion, not only offer the best security for efficient agriculture, but would in various other ways be highly advantageous to the entire community. Some idea may be formed of the advantage which may result from uniting the ownership with the cultivation of the soil, if we consider how little chance there would be of manufacturing industry in our country successfully encountering the close competition with which it has now to contend, if in England manufactories generally had to be rented, whereas in other countries they were owned by the manufacturers. It can be at once seen at what a disadvantage English manufacturers would be placed, if every time they wished to introduce new machinery or to carry out other improvements, they had to calculate whether or not a portion of the resulting profits would not be taken away from them in the form of increased rent. Legislation may give the tenant an important security for his improvements, but we believe it will be found that in all industry no legislation can give the same security as that which is obtained when a man feels that he is applying his capital and labour to increase the value of his own property.

BOOK II.  
CH. XI.

*restrictions which limit the amount of land brought in to the market and impede the investment of capital in agriculture.*

BOOK II.  
CH. XL.

*The policy  
of con-  
structing  
public  
works by  
the Go-  
vernment  
considered,*

*in India,*

The next scheme of State socialism to which it will be desirable to direct attention is the construction of railways, canals, and other public works from funds supplied by the Government. Although a demand has sometimes been put forward that public works should be undertaken at the public expense, yet the system has hitherto in this country only been carried out to a very limited extent. Under certain conditions Government loans are advanced to municipalities and other public bodies. The Public Works Loan Commissioners, through whom these loans are made, only make an advance upon adequate security, such as the rates. In India, the Government regularly spends large sums of money on public works; but the motive which prompts this expenditure is not to find work for the unemployed, but it is supposed that the mass of the Indian people not having obtained the same social advancement as those by whom they are governed, it is requisite to construct for them railways, canals, roads and other works which would not be carried out through the private enterprise of the people themselves. Although considerations such as these may justify the Government in extending public works in India, yet experience has shown that even in India the greatest care and watchfulness are required to prevent very serious evils arising. It has often happened that the construction of public works in India has involved the Government of that country in very grave financial difficulties. When the return upon the works is not sufficient to pay the interest on the loans raised for their construction, the deficit has to be made good by an increase in general taxation; and in a country such as India, where the mass of the people are extremely poor and where the resources of taxation are very limited, it is almost impossible to exaggerate the harm that may be done if it becomes necessary to resort to increased taxation.

*in France.*

In France the construction of public works by the Government has been undertaken from motives altogether different from those which prevail in India. The primary object in France is to give additional employment to the labouring classes. It cannot be for a moment supposed that any remunerative public work would not be supplied through private enterprise and private capital. In no country, probably, is there a more general diffusion and



greater accumulation of wealth than in France, and the enormous sums which are forthcoming whenever a new loan has to be raised show that it is scarcely possible to place any assignable limits to the amount of capital which the French people are willing to supply whenever they consider that an opportunity is offered of a safe and profitable investment. If therefore any particular public work is not constructed in France through private enterprise, it can be fairly concluded that in the judgment of the French people it does not afford a reasonable prospect of profit. As all experience shows that an industrial work carried out by a Government is not likely to lead to greater economy than if it is constructed through private agency, a work which is not carried out by private enterprise because it is unremunerative, will in all probability be still more unremunerative if it is undertaken by the Government. We are thus again brought face to face with the same difficulty which had to be met when considering the schemes for the nationalisation of the land, and we have to ask on whom would fall the loss which would result? To such an inquiry only one answer can be given: the State, as we have often had occasion to remark, far from having any great store of wealth from which draughts can be freely made without any one being the poorer, has to obtain every shilling it expends from taxation. It cannot moreover be too constantly borne in mind that all taxation takes from the pockets of the people a great deal more than it yields to the State. It is probably a moderate estimate to assume, when account is taken of the expenses of collection and of the hindrance to trade involved in taxation, that if the carrying out of a public works policy led to a deficit of 5,000,000*l.*, the real loss to the community would not be less than 6,000,000*l.*

There is another consideration which demands most serious attention. The expenditure by the State of large sums upon public works disturbs the natural flow of labour. Great masses of workmen are aggregated in particular districts, and when expenditure begins to slacken they are naturally eager for fresh employment, and the Government, in order to appease political discontent, may not improbably be forced to commit itself to still further outlay. As an instructive warning of the straits to which

*Socialists  
sometimes  
demand  
government  
aid  
for Co-operative  
Institutions.*

a Government may be forced if it interferes with the natural development of trade, it may be mentioned that in the Spring of 1883 there was much distress amongst the workmen of Paris; many of them had been attracted from the country districts by tempting offers of employment which were made during the time when public works on a large scale were carried out in Paris. The demand for work became so persistent that it was seriously proposed to order new furniture for all the Government offices in Paris, not because it was wanted but in order that employment might be found for the distressed cabinet makers. It would be scarcely more unreasonable to engage some one to break all the lamp-posts with the view of giving work to those who would replace them.

Considerations similar to those to which reference has just been made apply to all the schemes that are from time to time brought forward for carrying out various industrial undertakings by State funds instead of by private enterprise. Thus it has often been advocated in the programme of modern Socialists that co-operative institutions should be aided by capital advanced by the State. Whilst placing the highest value upon the extension of co-operation, we believe that no more fatal injury could be inflicted upon the movement than that the founders of co-operative institutions should be accustomed to rely, not upon their own efforts but upon State help. It is particularly worthy of remark that of the many French co-operative institutions which received assistance from the State at the time of the revolution of 1848, not one obtained any permanent success. It is not difficult to explain their failure. Every trade is certain sometimes to have to contend with the reverses of bad times; the surest way of triumphing over these difficulties is to exercise patience, care, and perseverance; and nothing is so likely to lead to failure as if encouragement is given to a relaxation of effort by the feeling that if fresh funds are required recourse can be had to the coffers of the State. If the credit of any commercial undertaking is good, there is no difficulty in its obtaining an advance of capital from bankers and others, whose special business it is to secure a profitable investment for the large sums placed at their disposal. If the State makes loans in cases where they

cannot be obtained from ordinary commercial sources, it is clear that, in the judgment of those best qualified to form an opinion the State is running a risk of loss which may necessitate increased taxation.

Although in England very little support has been given to proposals to assist co-operative institutions by State loans, yet within the last few years other schemes, which we believe may produce consequences very similar to those just described, have received much public favour. In Ireland three-fourths of the purchase money is advanced by the State to enable small farmers to purchase the land they cultivate, and it is evident that an effort will be made to extend the system to England and to Scotland. If the plan is simply considered in its financial aspects, it is at once evident that public funds are used in a manner that may lead to a loss which will have to be borne by the general body of taxpayers. For if the public money which is advanced could be regarded as a safe investment, there would, as previously remarked, be no necessity to have recourse to State assistance. If, moreover, the aid of the State can be evoked to enable small farmers to become the owners of the land they cultivate, it can hardly be doubted that gradually the system of State assistance will have to be extended. The workmen in the towns would not unnaturally think that they should share the advantages of State help; and they might urge that they should receive some assistance to enable them to become the owners of the houses in which they live. Such demands would be most powerfully stimulated if it became necessary to impose additional taxation in consequence of losses that might accrue on advances made by the State; because a feeling would inevitably arise that if the community were fined for the sake of providing advantages for a special class, these advantages should be shared by all who had to bear the burden. We fear, however, that the financial loss may be by no means the most serious evil resulting from a large extension of the plan of creating small properties in land by means of Government loans. It is at any rate deserving of most careful consideration whether similar results will not follow the scheme of creating peasant properties by State help to those which have been produced by the attempt in a similar manner

BOOK II.  
CH. XI.

*State-aided peasant proprietors.*

*Ought improved dwellings for the labouring classes to be provided by the State?*

to foster co-operative institutions. If some hundreds of thousands of small farmers were debtors to the State, it might not improbably happen that, in a period of agricultural depression, they would not encounter their difficulties by increased energy and enterprise, but would be encouraged to seek a remedy in the tortuous courses of political agitation. The State would be represented as a hard taskmaster, mercilessly exacting the uttermost farthing from the suffering and the impoverished; and political support might be given to those who would most deeply pledge themselves to secure a partial remission of the debts that had been incurred.

It seems probable that the scheme of State Socialism which in England, during the next few years, is likely to assume most importance is the erection of improved dwellings for the poor by funds supplied either from imperial or local taxation. It is almost impossible to overstate the evils which result from the overcrowding of a large portion of the population in wretched and unhealthy dwellings. As stated by Mr Bright in his rectorial address at Glasgow (March, 1883), it appears that even in that wealthy city no less than forty-one out of every hundred families live in a single room, and that beyond these forty-one, thirty-seven families out of every hundred live in two rooms<sup>1</sup>. In view of such a state of things no effort should be spared to bring into operation every agency which is calculated to improve the dwellings of the poor. Admitting that there can be no difference of opinion as to the desirability of the object to be attained, the question is at once suggested whether this object is likely to be promoted by erecting dwellings at the public expense. There is a wide distinction to be drawn between the interference of the State on sanitary grounds, and its interference with the object of supplying houses on more favourable terms than those on which they can be provided by private agency. There are strong grounds for concluding that it is expedient for the State to interpose

<sup>1</sup> The deplorable state of things disclosed by these figures is probably in large measure due to the fact previously stated (see note p. 276) that the Scotch, compared with the English, have hitherto made scarcely any effort to provide themselves with better houses through the agency of Building Societies.

both with the object of preventing unhealthy houses being built and in prohibiting houses continuing in so bad a sanitary condition that they not only are dangerous to their inmates, but may become centres of disease to the neighbourhood. It can, however, be easily shown that immediately the State steps beyond these limits of interference, and attempts to control the rents that are charged by building houses with public funds, endless difficulties are at once suggested. If the rent asked for houses built by the State or by a municipality is not sufficient to pay the interest on the money expended in building them, the deficiency must be made good either by an increase in imperial or local taxation. Additional imperial taxation must in part ultimately be paid by the poor, and without discussing here the intricate question of the incidence of local rates, it is sufficient to say that rates are in a large part paid by the occupiers of houses. If therefore it became necessary, as the result of a municipality entering into building operations, to increase rates, the inevitable result must be that those who were fortunate enough to be selected as tenants by the municipality would be virtually shifting a portion of the rent which they would otherwise have to pay, from themselves upon the rest of the inhabitants. Not only would this be manifestly unjust, but the very evil which it was sought to cure would in many instances be aggravated. A workman can only afford to spend a certain portion of his wages upon house-rent; suppose the amount spent by one who is earning 30s. a week is, for rent and rates combined, 6s., the rent being 4s. 6d. and the rates 1s. 6d. If his rates are increased by 6d. a week, the amount then remaining to him to spend in rent is reduced from 4s. 6d. to 4s. a week, and the accommodation which he will ultimately obtain will be proportionately diminished.

There is yet another difficulty to be considered. What process of selection is to be adopted by the municipal authorities in deciding who should be the favoured individuals to enjoy the advantage of living partly at the public expense in houses with rents artificially reduced? It is obvious that poverty cannot be made the controlling principle of selection; because, if this were done, a direct and powerful inducement would be held out to impro-

*The dilemma again arises between on the one hand, charging a full competition rent for*

BOOK II.  
CH. XI.

*the houses built by the State or municipality, and on the other hand encountering financial failure coupled with all the evils of favouritism and jobbery.*

*Such a scheme would be a fatal blow to Building Societies.*

*State aided life insurance and sick pay.*

vidence. Nothing could be more disastrous than to make the industrious poor feel that they were taxed in order to provide those who were impoverished by intemperance or improvidence with better and cheaper houses than they could themselves obtain. If no principle of selection were adopted, and if the houses built by the State or by the municipality were let at the highest rent they would fetch, is there any reason to suppose that a State or a municipality would, in such a trade as house building, be able successfully to compete with private enterprise? This being the case, the result would be that although those who lived in the houses built with public funds would be paying competition rents, yet in all probability these rents would not be sufficient to return the interest on the outlay and the expenses of management, and the deficit would have to be made good either by adding to taxation or by an increase in rates.

Probably, however, the most mischievous consequence that would result from the State or a municipality undertaking to supply houses, is the effect it would have in discouraging the efforts which the working classes are now making to provide themselves with houses. There is no fact connected with the social condition of the people more hopeful than the remarkable development of building societies in recent years. It is estimated, as previously stated, that at the present time these societies have no less than 750,000 members, all of whom, by the setting aside of small savings, have either become, or are in process of becoming the owners of the houses in which they dwell. There is, we believe, no surer way of drying up this great stream of self-help and self-reliance than to teach the working classes that they should look, not so much to their own efforts, but to the State or the municipality to provide them with the house accommodation they may need.

The next scheme of State socialism to which it is desirable to direct attention is the proposal, which has been sanctioned by the high authority of Prince Bismarck, to create a fund, partly obtained from a special tax levied upon employers, for the purpose of providing insurance against accidents and an allowance during sickness for workmen. It has been sometimes suggested that the

scheme is a natural outgrowth of that system of militarism which has assumed its highest development in Germany, and that so severe a strain has been imposed upon the industrial classes by compulsory military service that it is necessary to resort to exceptional measures to relieve it. It would, however, be foreign to our purpose in this place to consider the scheme in other than its economic aspects. With the object of clearly explaining the economic results which may be produced, it will be desirable to assume that the scheme is carried out in the simplest possible manner, and that the money required to give effect to the proposal is in part obtained by a special tax, say of 10 per cent., levied upon the profits of the employers. It will be necessary, in the first place, to consider what will be the effect of this tax, not only upon the employers, but also upon the rest of the community. Three questions are at once suggested :

- (1) Will the tax be really paid by the employers ?
- (2) Will the employers be able to compensate themselves by a rise in the price of commodities, and thus shift the burden upon the general body of consumers ?
- (3) Will the employers be able, in consequence of the tax, to reduce wages and thus cause the tax to be really paid by the workmen ?

We believe, from the answers to be given to these three questions, it will be clearly shown that the tax will ultimately have to be borne wholly or in large part by the workmen. Suppose that the tax, in the first instance, is paid by the employer, and that his profits are consequently proportionately decreased. This diminution in profits will render it less desirable to embark capital in the industry of the country; because if capital were employed in some other way, such as the purchase of Government loans, or if it were exported for investment abroad, the payment of the tax would be avoided. This lessening of the inducement to apply capital to home industry could have no other result than to diminish the demand for labour; wages would consequently decline, and the tax, though paid by the employers, would really, in large part, be contributed by the labourers.

It can be easily shown that very serious results might ensue if the employers attempted to compensate them-

*The funds required would eventually come out of the pockets of the workmen.*

selves for the loss inflicted by the tax by a rise in the price of commodities. In every country there is in the great majority of industries a keen and closely contested competition between the home and the foreign producer; if the price of home products is artificially raised, the inevitable result will be at once to place home trade at a disadvantage; business would become less active, profits and wages will both decline, and it may very possibly happen that the loss alike to employers and employed will be considerably greater than the amount of the tax. Even if there were not the competition just supposed, and if it were possible to maintain a rise in prices sufficient to compensate the employer for the tax, the labourers, being by far the most numerous class in the community, would, by having to pay an extra price for commodities, be just as certainly taxed as if the larger part of the tax were in the first instance levied from them. The same result would, of course, take place, if, as a consequence of imposing the tax upon the employer, he, in order to place himself on an equality with his foreign competitors, reduced wages.

We therefore arrive at the conclusion that no course can be suggested which will prevent the tax, either wholly or in large part, being paid by the labourers; and therefore the effect of the scheme will be the same as if the labourers were directly taxed with the object of forming an insurance and annuity fund for their benefit. Amongst many objections that may be urged to such a plan of compulsory thrift, it may be mentioned that it would be impossible for the Government to obtain money for an insurance fund either from those who are unemployed or from those who only earn wages just sufficient to provide themselves with the necessaries of life. The certain result of the Government making such an attempt would be to arouse a bitter feeling of resentment. Many forms of providence, such as insurance and making provision for old age and sickness, which are now rapidly spreading, would become unpopular; and we believe it would be found that not only would a Government hopelessly fail to introduce a system of compulsory thrift, but that the reaction that would result from the attempt would lead to there being far less thrift amongst the labouring classes



than if it had never been sought to force it upon the people.

Although a Government may by unwise interference materially retard social and economic movements which are calculated greatly to improve the condition of the people, yet we think that a Government may exert a very beneficial influence in making available various agencies that will render the practice of providence more easy. Unmixed good has, for instance, resulted from the introduction of savings banks, which are now so rapidly spreading in our own and other countries; and it may be confidently anticipated that the people are more likely to make a prudent provision for the future if they feel that they can enjoy the security of the State, and that years of thrift will not be lost to them by intrusting their savings to insolvent societies. It is, however, of the first importance that any scheme which is supported by the State should be conducted on sound commercial principles, and should be entirely self-supporting. Thus the savings banks which are administered through the Post-office, far from throwing any charge upon the general taxpayers of the country, yield a profit which is sufficient to secure the State against any risk of loss. If this principle were once departed from, nothing but mischief would result. If, for example, in order to promote thrift, the State allowed a higher rate of interest on savings bank deposits than it could afford to pay, the general community would be taxed for the benefit of a special class, and rival political parties prompted by a desire to gain popularity might, having once departed from the path of sound finance, bid against each other by offering a still higher rate of interest, and thus an increasing burden would be thrown upon the community.

In thus directing attention to the mischief which is likely to result from bringing into operation various schemes of State Socialism, we think it ought not to be concluded that an institution must necessarily be condemned because it may have associated with it some of the characteristics of socialism. As an example it may be mentioned that our poor law system is undoubtedly based upon socialism, because it confers upon every destitute person a legal right to be maintained at the public ex-

BOOK II.  
CH. XI.

*It is possible for a government to promote thrift as e.g. through the establishment of Savings Banks.*

*An institution is not necessarily bad, because it is in some respects socialistic, e.g. the English poor law.*

pense. It would not, however, be safe to conclude that the poor law ought to be abolished because of the socialism which attaches to the system. Such a question ought to be determined by a careful balancing of advantages and disadvantages; and we believe that when this is done the conclusion will be that the abolition of the poor law, from the stimulus which would be given to all the evils associated with indiscriminate charity, would produce consequences which would be far more serious than any mischief which results from a poor law system when carefully and properly administered. Experience, however, has abundantly shown that a Government, in entering so far upon the path of socialism as to guarantee maintenance to all destitute applicants, incurs a responsibility so grave that if it is not safeguarded with the utmost caution it may bring the most serious dangers upon the community. Before the introduction of the new poor law in 1834, for instance, pauperism was so much encouraged by the carelessness and laxity of administration which had previously prevailed, that English industry seemed likely to be permanently crippled by the burdens imposed upon it. If great watchfulness is not exercised in checking out-door relief, similar evils may again occur; poverty and suffering naturally evoke so much sympathy that a demand for a more liberal administration of poor relief may easily be created.

*Objections  
to free  
education.*

Proposals are also frequently brought forward to widen the application of the principle involved in poor law relief. Thus there are many who urge that as some of the poor find it difficult to pay for the education of their children, free education should be given at the public expense to all who choose to avail themselves of it. Amongst the pleas that are urged in favour of this proposal, it is said that as the money which free education would require would be contributed by the taxpayers and ratepayers of the country, parents would still pay for the education of their children, although in an indirect way. Precisely the same argument would justify such an extension of the present poor law system as would cause maintenance at the public expense not to be confined as it now is to the destitute; the right of enjoying it might also be conferred upon all who chose to avail themselves of it. It is also sometimes argued that a system of compulsory education has been

introduced because it is in the interest of the State that the community should be properly educated, and that therefore, as the arrangement is carried out in the interests of the State, it is only fair that the State should bear the expense. But if this principle is accepted the responsibilities of the State might be indefinitely increased. It is to the national advantage that the people should be well fed, well clothed and well housed; therefore it might be proposed that the feeding, clothing and housing of the people should be undertaken by the State. It is, moreover, to be remarked that the chief justification for the interference between parent and child, involved in compulsory education, is to be sought in the fact that parents who incur the responsibility of bringing children into the world ought to provide them with education, and that if this duty is neglected the State interposes as the protector of the child. It no doubt may be said that a very large part of the expense of popular education is now defrayed by grants obtained either from imperial or local taxation, and that as consequently so great an advance has been made towards free education, no harm could result from its complete introduction. In our opinion, however, great care ought to be taken to preserve some recognition of the individual responsibility which every parent owes to his children in reference to education, and instead of entirely sweeping away this responsibility, the people should be rather encouraged to regard the present system only as a temporary arrangement, and that as they advance, the portion of the charge for the education of their children which can now be shifted upon others should, instead of being increased, be gradually diminished.

In bringing these remarks to a conclusion, we cannot help thinking that for some years to come many of the schemes which have been here considered may in various forms engage a large share of public attention. In endeavouring to explain some of the consequences which their adoption would involve, we should greatly regret to do any injustice to the motives of those by whom they are advocated. Mischievous as we believe many of these schemes would prove to be, the great majority of those by whom they are advocated are undoubtedly prompted by no other desire than to promote social, moral and material

**BOOK II.  
CH. XI.**

advancement. The conclusion, above all others which we desire to enforce, is that any scheme, however well intentioned it may be, will indefinitely increase every evil it seeks to alleviate, if it lessens individual responsibility by encouraging the people to rely less upon themselves and more upon the State.

## CHAPTER XII.

### ON THE ECONOMIC ASPECTS OF SLAVERY<sup>1</sup>.

IT has been already remarked, that when land is cultivated by a peasant proprietor, the entire produce belongs to him, because he provides the land, labour and capital; but this ownership of land, labour and capital, by the same individual, is also characteristic of slave cultivation, for if a farmer owns slaves, they are as much a part of his capital as the horses which plough his ground. When land is cultivated entirely by slaves, no portion of the produce is allotted to the labourers in the form of wages; slaves are not permitted to possess property, and they are therefore never paid wages; they of course have to be fed, and so have the horses which till the ground. Slaves therefore should not be regarded as labourers receiving wages, since they are as much a portion of the cultivator's capital as any kind of stock or implements which he may possess. Consequently, in slave cultivation, the produce of the land has not to be distributed between rent, profits, and wages; but simply between rent and profits.

A discussion on the moral effects of slavery does not properly belong to Political Economy; for this science only undertakes to investigate the phenomena which concern wealth. No unimportant service, however, will be rendered

BOOK II.  
CH. XII.

*The produce of slave cultivation is divided amongst two classes.*

*Importance of considering the economic effects of slavery.*

<sup>1</sup> The American civil war was at its height when this chapter was written. Many of the remarks contained in it are consequently not pertinent to the present time. It is however perhaps advisable not to omit the chapter. It is still useful to be reminded of the true issue of that great struggle. This chapter, moreover, is chiefly based upon the speculations of the late Professor Cairnes, which afford a striking example of the skill with which the principles of economic science can be applied, to render intelligible the real character of a great political question.

BOOK II.  
CH. XII.

to every philanthropist, and to every lover of freedom, if the principles of Political Economy demonstrate that slave labour is inefficient and uneconomical, and that it ultimately diminishes the productiveness of the soil. If these facts can be established, slavery must ultimately work its own destruction, provided that the area over which it is permitted to extend can be restricted.

*Defects of  
slave la-  
bour.*

The economic aspects of slavery were never discussed in so clear and masterly a manner as in a work by Professor Cairnes, on 'The Slave Power.' The writer has most aptly said, that the labour of the slave has the three following defects:—'it is given reluctantly; it is unskilful; it is wanting in versatility.' We will, therefore, in the first place, explain the causes which produce, and the consequences which result from, each of these defects. No one can doubt that slave labour must be given reluctantly. The only object which the slave can have, is to do no more work than is sufficient to prevent corporal or some other kind of punishment being inflicted upon him; the slave has no more interest in the prosperity of the industry in which he is employed than the mere beast of burden, for, whether the crops are good or bad, he must be fed. An able-bodied slave could be sold in America for 250*l.*, and therefore the self-interest of the slave-owners always provided a guarantee that the physical comforts of a slave were not so much neglected as to endanger his health. No farmer, if he were in his proper senses, would ever permit a valuable horse to suffer, either from ill treatment or from want of food, for if he could not afford to keep the horse properly, it would of course be better for him at once to sell it. A slave therefore has no motive to exert himself, for whether he is industrious or not, he is sure to obtain the food and clothing which his master thinks he requires. Consequently, his labour is extorted from him, and he requires to be most vigilantly watched. Slaves can therefore only be advantageously employed when the work upon which they are engaged is such that they can be collected together in gangs, for it is impossible to watch a great number of workmen when they are scattered about. This consideration suggests the reason why the only commodities which have been produced on any large scale by slave labour

*It is given  
reluctant-  
ly.*

*The slaves  
must con-  
sequently  
be worked  
in gangs.*

are cotton, tobacco, sugar, and rice; for the cultivation which each of these commodities requires, is characterised by the circumstance that a great amount of labour is employed on a very small area, and the labour can therefore be concentrated. Mr Olmsted, whose most valuable work on 'Slavery' contains an exhaustive record of facts, has calculated that one labourer will cultivate ten acres of wheat, whereas one acre sown with cotton requires the labour of at least ten men. A similar remark holds true with regard to the other products, namely, tobacco, sugar, and rice, which are cultivated by slave labour. This necessity of working slaves in gangs, in order that they may be vigilantly watched, was strikingly exemplified by the geographical distribution of slavery in America; for there was nothing in the original constitution of the States which composed the Federal Union that satisfactorily accounted for the fact, that the North was cultivated by free labour, whereas the South was cultivated almost entirely by slave labour. It was sometimes hastily concluded, that Europeans could not work in the South, but this was an entire mistake; many of the Southern States, such as Virginia, have a climate quite as well adapted to Europeans as many of the free States of the West, such as Wisconsin. The boundaries of slavery were not determined by climate, but by the nature of the products which the soil was best fitted to grow. If corn were grown by slave labour, this labour would be inefficient, because it could not be sufficiently concentrated to be adequately watched; hence slave labour becomes more expensive than free labour, and therefore cannot compete against it, when such a commodity as corn is grown. This conclusion was corroborated in a very remarkable manner, for some parts of the Southern States, such as the slopes of the Alleghanies, are well adapted to grow corn, and the other commodities which formed the staple products of the North. It is a most instructive fact, that these particular localities, although in slave States, and surrounded with slavery, were invariably cultivated by free labour. It was therefore proved that slave labour, because it was reluctantly given, must be most carefully watched; and unless this can be done, the labour of the slave becomes so inefficient that it is

*This determines the products upon which slave labour is employed, and its geographical distribution.*

BOOK II.  
CH. XII.

*Slave labour is unskilful.*

*Facts which confirm this proposition.*

far more expensive than hired labour, even in those countries, such as America, where high wages prevail.

Unskilfulness is the second defect which belongs to slave labour, and in fact this defect is an inevitable consequence of the first defect, because, when labour is reluctantly given, it is sure to be deficient in skill. If the slave has no motive to put forth his physical energies, he certainly has no greater inducement to apply his mental faculties in order to acquire skill and dexterity; his position would in no way be improved, even if he were to show that he was a more valuable workman than his fellows. He must be fed, and so must they; and the fact that his price would be advanced in the slave market by an increase of skill, is a matter of no consequence whatever to himself. The more a slave shows that he is capable of doing, the greater is the amount of work which will be extorted from him, and for this extra exertion he receives no additional reward whatever. It is therefore for the interest of the slave to disguise as far as possible from his master the amount and the kind of work which he can really perform; a heavy discouragement is consequently thrown in the way of the least mental effort, and slave labour must always be most unskilful. These conclusions can be corroborated by specific facts, for it has never even been proposed to employ slave labour either in manufacturing, or any other industry which requires skill on the part of the labourer. We will once more refer to Mr Olmsted, for from personal observation he gives direct testimony with regard to the unskilfulness of slave labour; thus, he says that the negro slave is entirely unfit to be trusted with machinery; if he has placed in his hands any but the rudest tools, he is sure to break them. Mr Olmsted affirms that the slave owners of Virginia found it more economical to use implements so heavy and clumsy that it increased the cost of performing work at least ten per cent., simply because they were not so liable to be injured or broken. He also mentions the very curious fact, that mules were almost invariably employed in the Southern States, instead of horses, because the slaves were sure to neglect or ill-use any animals which they had in charge; the mule being a hardier animal than the horse, was consequently not so liable to be injured by the want of



proper treatment. These facts, and others which might be enumerated, clearly prove that no skilled industry can ever be successfully carried on by slave labour.

The third defect of slave labour, namely, want of versatility, is due to the same causes as those which produce the other two defects which we have already discussed; for labour which is given reluctantly, and is unskilful, cannot possibly display any versatility. A labourer must possess considerable intelligence if he is able efficiently to perform several different kinds of work. Such intelligence, however, is sure never to be displayed by the slave; for if he only shows that he is able to do some additional kind of work, extra labour will probably be forced upon him, and therefore he rather loses than gains by acquiring versatility. Hence it is natural that slaves should show a great disinclination to be taught any new kind of work; upon this point Professor Cairnes has said, 'The difficulty of teaching the slave anything is so great, that the only chance of turning his labour to profit is, when he has once learned a lesson, to keep him to that lesson for life. Where slaves, therefore, are employed there can be no variety of production. If tobacco be cultivated, tobacco becomes the sole staple, and tobacco is produced whatever be the state of the market, and whatever the condition of the soil.'

Before proceeding to describe some important consequences which result from the defects in slave labour just enumerated, it will be advisable to anticipate a remark which may very probably be made. Some of our readers may say, Although it is true that the negro slave labour possesses all the defects which are here ascribed to it, yet these defects are inherent in the negro race, and do not necessarily form a part of the institution of slavery. The history of ancient countries no doubt gives some support to this opinion. When Greece was in her greatest glory, a considerable portion of her skilled industry was performed by slaves; they constructed buildings and other works which never have been surpassed in artistic beauty. But the social position of the Athenian slave in no respect resembled the position occupied by the slaves in the United States. Even many Americans who did not live in the slave States despised the negro as a being degraded

BOOK II.  
CH. XIII.

*Slave labour is wanting in versatility.*

*The explanation of these peculiarities of slave labour by the race of the slaves is untenable.*

BOOK II.  
CH. XII.

by inferiority of race, and considered that his colour made him a permanent outcast. But the Greek slave was generally a captive obtained in war; perhaps he was respected for the courage he had shown on the battlefield; he very possibly belonged to a race whom the Greeks scarcely regarded as their inferiors. The Greek slave had certain rights of property secured to him, and he always had a definite hope that he should be able, by his own exertions, honourably to emancipate himself. His industrial energy therefore, instead of being completely destroyed, was powerfully stimulated, and, unlike the negro slave, whose interest it was to be unskilful, he had every motive to exert himself to the utmost. There is therefore no parallel whatever between the condition of the Greek and that of the negro slave. Our previous conclusions are consequently not in the least degree shaken; for if slaves are as completely deprived of every human right as they were in America, we may be quite sure that their labour must exhibit all the defects which have been attributed to it, whatever may be the race to which the slave may happen to belong. From these defects in slave labour some very important consequences result.

*Slave labour is only applicable to a few commodities.*

It has already been stated, that the slave is wanting in so many of those qualities which make labour efficient, that there are very few branches of industry which can be successfully carried on by slave labour. For instance, corn, and the various other products of European agriculture, are never grown by slave labour. Slaves are never employed in manufacturing industry, because they cannot be entrusted with machinery; in fact, slave labour may be said only to produce four commodities, viz. cotton, sugar, tobacco, and rice. If any other kind of industry is attempted, slave labour is sure to be supplanted by free labour, because the superior efficiency of the latter makes it more economical. But although the four products just enumerated can be profitably cultivated by slave labour, profit even in this case cannot be obtained unless certain conditions are fulfilled. It is, in the first place, evident that the unskilfulness and general inefficiency of slave labour causes it to be extremely wasteful and careless. The cultivation of the land with such labour must inevit-

ably be slovenly, and consequently the land is gradually impoverished. Moreover, there is another circumstance which tends to impoverish the land when it is cultivated by slaves; for able-bodied slaves were, previous to the civil war, worth no less than 250*l.* in the American markets. Hence a planter required a capital of 25,000*l.* in order to purchase 100 slaves. The greater part of the planter's capital was probably absorbed in obtaining slaves, and he therefore had little to spare for carrying out improvements in his land. Hence slave cultivation gradually exhausted the soil, and it therefore became all-important to the slave owners that they should be able to obtain fresh soils of virgin fertility. The highest authorities, many of them slave owners themselves, agreed with perfect unanimity as to the exhaustive nature of slave cultivation. We will quote the very remarkable testimony of the Hon. C. Clay, who was moreover a native of the South, and an advocate of slavery. He said, 'I can show you with sorrow, in the older portions of Alabama, and in my native county of Madison, the sad memorials of the *artless and exhausting* culture of cotton.' He then stated that the majority of the planters had not sufficient means to improve their land, either by rest or by the application of manures, and that they consequently moved farther West, or South, in search of virgin soils, which were impoverished in their turn; and he then proceeded emphatically to affirm, that 'a country in its infancy, where fifty years ago scarce a forest-tree had been felled by the axe of the pioneer, is already exhibiting the painful signs of senility and decay apparent in Virginia and the Carolinas; the freshness of its agricultural glory is gone, the vigour of its growth is extinct, and the spirit of desolation seems brooding over it.' These most suggestive remarks of Mr Clay might be easily corroborated by a great mass of similar evidence. It may therefore be regarded as conclusively proved, that slave cultivation cannot continue to be profitable unless the slave-holders have at their command an abundant supply of fertile virgin soils. This suggests an explanation of the policy which was for many years pursued by the Southern States of America; for they ceaselessly directed their efforts to bring new and unoccupied territories under the dominion

BOOK II.  
CH. XII.

*It therefore tends to exhaust the soil.*

*Evidence of Mr Clay.*

*Explanation of the policy of the South.*

BOOK II.  
CH. XII.

of slave institutions. Texas was unjustly seized from Mexico, and yet its soil was not immediately wanted, for after its annexation comparatively few slaves were located there. The South, however, fully recognised the future importance of acquiring this vast area of fertile and unoccupied land. Similar motives induced the South to strain every effort to obtain possession of Kansas. At the commencement of the civil war in America, it was uncertain whether the issue involved was the immediate abolition of slavery. It was however foreseen by those most fitted to form an opinion, that the result of the war would determine the great question—Shall the limits of slavery be indefinitely extended? As the struggle proceeded it was also foreseen that not only the extension of slavery, but also its existence as an institution, were at stake. This prediction was justified by the events, for, happily for America and for mankind, the North triumphed, and slavery was for ever banished from the United States. It now only lingers as a recognised institution in Brazil and Cuba.

**BOOK III.**  
**EXCHANGE.**



## CHAPTER I.

### ON VALUE AND PRICE.

**T**HE subject of exchange is so intimately connected with every question of political economy, that many writers on this science consider that the production and distribution of wealth cannot be understood without previously ascertaining the laws of exchange. There is reason for this opinion, because it is quite true that many commodities are only produced to be exchanged for other commodities, and the distribution of wealth of course implies the exchange of wealth. We believe, however, that clearness of conception is obtained by the arrangement adopted in this work, for the laws of the production and distribution of wealth have been discussed, without anticipating any of the laws of exchange, which will now be explained.

The words value and price have already been occasionally employed without receiving any precise definition. Before investigating the laws of exchange, it is most important to define these words accurately; for many of the most wide-spread errors with regard to economic science arise from confusing the words value and price. The difference in their meaning will be best marked by an illustration. If a sack of wheat exchanges for a ton of coal, or if, in other words, a person who possesses a sack of wheat can obtain a ton of coal in exchange for it, then a ton of coal is the value of a sack of wheat; or, employing more popular phraseology, a sack of wheat is worth a ton of coal. It therefore appears that value implies the comparison of one commodity with another; for a sack of wheat has some particular value with

BOOK III.  
CH. I.

*Reasons  
for not  
previously  
consider-  
ing value.*

*Distinc-  
tion be-  
tween  
value and  
price.*

BOOK III.  
CH. I.

*A general  
rise or fall  
of value is  
impossible.*

regard to every commodity for which it can be exchanged. If a sack of wheat could be exchanged for six pounds of tea, then six pounds of tea would be the value of a sack of wheat, when estimated in this particular manner. Value, therefore, is a relative expression; for instance, if the value of wheat compared with any particular article falls to a certain amount, there must be a corresponding rise in the value of this commodity, compared with wheat; for if wheat declines in value, so that it will only exchange for half as much tea, then tea must manifestly rise in value, since it will now exchange for twice as much wheat. When, therefore, the general value of a commodity declines, less of every commodity can be obtained for it in exchange; but if this be so, the value of all these commodities must rise when compared with the particular commodity in the value of which it has been supposed a decline has taken place. These considerations demonstrate the erroneous nature of a statement not unfrequently made, that there is a general rise or fall in the value of all commodities. This is as impossible as it would be for each one of six rowers to row faster or slower than the other five. A cannot row faster than his five companions, except by each of these rowing slower than A. In a similar manner value is a relative expression, and essentially implies comparison. It is quite impossible that there should be a general rise of values, for if there is a rise in the value of one commodity, there must be a fall in the value of all the commodities with which this one is compared. All that is here stated may appear so simple, that it will perhaps be supposed that time is being wasted in explaining self-evident truths. These truths however are by no means self-evident when involved in the entanglement of more complicated propositions. A shade of error has been cast over the writings of some eminent political economists because they have neglected to keep steadily in view the correct meaning of the word value.

*Price is  
value esti-  
mated in  
the metals  
used as  
money.*

Price is a particular case of value. If the value of a commodity is estimated by comparing it with those precious metals which civilised countries employ as money, then it is said that the price, and not the value of a commodity, is ascertained. If a sack of wheat is exchanged for a quantity of gold, termed a pound sterling, it would



be perfectly correct to say that the value of a sack of wheat, estimated in gold, is one pound sterling; but, for reasons which will be afterwards explained, it is found convenient to single out this case of value from every other, and consequently it receives a particular name, for it is not termed value, but price. The price of a commodity may therefore be defined as its value, when estimated by comparison with those precious metals which by general consent have been adopted as money. Although there cannot be a general rise or fall in values, there can be a general rise or fall in prices. If the precious metals become much more plentiful, their value compared with all other commodities declines; since a certain quantity of gold or silver will exchange for a diminished quantity of all other commodities. If the value of the precious metals, compared with other commodities, is diminished, the value of all other commodities, compared with the precious metals, must be increased; but, as before stated, the value implied in this latter comparison is termed price, and consequently the price of all commodities will be increased.

In political economy a system of propositions may be enunciated, which treat of the value of commodities, and not of their price. This course is usually adopted, but it only adds to the difficulty of the subject, without attaining any practical object of utility; for none of the transactions of trade and commerce in civilised countries are ever arranged without the machinery of a monetary standard. Money has aptly been described as the universal medium of exchange. If it is desired to ascertain how much of one commodity another will exchange for, the calculation is always made in money; the prices of the commodities, and not their values, are considered. If, for instance, a person who possessed wheat desired to purchase coal, it would be important for him to estimate the value of wheat compared with coal; but he would not attempt to do this by actually bartering away his wheat for coal; such bartering would be cumbersome and expensive. All that it would be necessary for him to do would be to ascertain how much money his wheat would exchange for. When he thus knew the price of a sack of wheat, and also the price of a ton of coal, the value of wheat

*Reasons  
for con-  
sidering  
price in-  
stead of  
value in  
this treat-  
ise.*

BOOK III.  
CH. I.

*Ordinary  
method of  
political  
econo-  
mists.*

*We shall  
assume at  
present  
that the  
value of  
the preci-  
ous metals  
is not af-  
fected by  
any change  
in the  
mines.*

estimated in coal would be immediately known, because the quantity of coal for which a certain quantity of wheat would exchange would be accurately ascertained.

As therefore, in practice, questions of value involve a comparison of prices, our investigations will be simplified if the laws regulating the price of commodities are considered, without attempting to establish propositions with regard to the values of commodities. But until the functions of money are explained, it will be necessary carefully to bear in mind that a certain assumption is made in all the investigations which involve the consideration of price. The assumption is this; that when the price of a commodity varies, the variation is always supposed to be produced by something which affects the value of the commodity, and not the value of the precious metals. We will endeavour to explain our meaning still further, by an illustration. Suppose it is observed that the price of wheat rises; this rise in the price of wheat may be due to two very distinct causes. In the one case, wheat may become scarcer, and therefore dearer; in the other case, wheat in common with every other commodity may rise in price, in consequence of new discoveries of the precious metals, such as those made in Australia and California in recent years. In the following chapters, therefore, which precede the discussion of the theory of money, the assumption is made that variations in price are not caused by an alteration in the value of the precious metals.

## CHAPTER II.

### ON THE CAUSES WHICH REGULATE THE PRICE OF COMMODITIES.

**T**HE commodities which compose the wealth of a nation may be divided into three classes; and the manner in which the price of any particular commodity is regulated depends upon the class or division to which the commodity belongs. The three classes may be characterised as follows:—

1st. Some commodities are absolutely limited in quantity; however great the demand may be for them, it is impossible to increase their supply. Only a certain number of sculptures and paintings by ancient masters are extant, and no efforts can increase their number. Again, if some particular site is thought desirable for a house, the number of houses which can be built upon this site cannot exceed a certain limit. Thus, the shops in a thoroughfare such as the Strand, or Fleet Street, cannot exceed a certain number; articles of vertu, curiosities and antiquities, which are prized because some particular associations are attached to them, are in a certain degree fixed in quantity. There may thus be perhaps half a dozen very rare coins in the cabinets of collectors, and no one can feel certain that another of these coins will ever be discovered.

2nd. Some commodities can be increased in quantity, without any practical limit, but if their supply is increased their production will require a greater proportional expenditure of labour and capital, and therefore these commodities have a constant tendency to become more expensive, as the demand for them augments. We have already remarked that this character peculiarly belongs to

BOOK III.  
CH. II.

*Three  
classes of  
commodi-  
ties.*

*Those  
which are  
absolutely  
limited in  
quantity.*

*Those of  
which the  
supply  
may be  
increased  
by greater  
proportion-  
al labour.*

*Those which may be indefinitely increased at the same rate of labour.*

*Laws which regulate the price of these classes. Example of the first class. The price of a picture by a deceased artist.*

agricultural produce. If there is an increase in the demand for agricultural produce, it becomes necessary to resort to less productive land, which cannot be cultivated without a greater expenditure of labour and capital in proportion to the produce which is raised from it. Many of the most important speculations of economic science, for instance Ricardo's theory of rent, depend upon the tendency which agricultural produce has to become more expensive, as the demand for it increases.

3rd. Some commodities can be increased to a practically unlimited extent without increasing their cost. Manufactured goods may be placed in this class; for although the cost of the raw material will, like the cost of agricultural produce, increase as the demand for it is augmented, yet the increase of cost which is thus produced may be almost neglected, because it bears such a small proportion to the whole cost of the manufactured article. Other articles, such as household furniture and wearing apparel, may be placed in this third class. There is no reason why shoes, for instance, should become scarcer because there is a greater demand for them; there could be no difficulty in supplying any number of shoes for which there may be a demand.

Very different laws regulate the price, and therefore the value of a commodity, according to the particular class to which it belongs. We will commence by considering the commodities included in the first class.

The works of a deceased artist have already been stated to be included in this class. Let us inquire what determines the price of one of Turner's pictures. The price is usually supposed to be regulated by demand and supply, but the words 'demand and supply' appear to be a never-failing recipe for solving every economic difficulty; popular writers and popular speakers seem to think that an explanation based upon demand and supply must be not only very satisfactory, but also extremely scientific. The expression 'demand and supply' too often conveys as little meaning to those who use it as to those to whom it is addressed. If the question were asked, what regulates the price of Turner's pictures, the reply would not improbably be made that the price is regulated by the ratio which exists between the supply of these pictures and the

demand for them. It surely must be erroneous to speak of a ratio between demand and supply: there cannot be such a ratio, for supply in this case means a certain number of pictures, and demand in this case signifies a desire to possess a picture. It is therefore absurd to attempt to establish a ratio between a picture and a desire to possess it. A ratio can only exist when the two things compared are of the same kind. Demand is an indefinite expression; every educated person would like to possess a picture by Turner, and therefore in this sense the demand is almost universal; but the universality of such a demand cannot produce much effect in determining the price of a picture; every beggar would like to have a diamond, but a jeweller does not for this reason obtain a higher price for diamonds. This obvious ambiguity with regard to the meaning of the word demand has suggested to political economists the use of the term 'effectual demand.' It is intended to denote by this expression the demand which is exerted by those who are not merely desirous to possess some particular commodity, but who also have the requisite means to purchase it. This demand is the only one which can be effectual in producing any influence on prices. Although the employment of the words 'effectual demand' recognises a real difficulty, yet the difficulty itself continues to remain unsolved, for it cannot be said that the price of an article is regulated by the effectual demand for it, since a moment's consideration will clearly show that the effectual demand for an article varies with and depends upon its price. If Turner's pictures could be purchased at ten guineas each, there would be a much greater demand for them than if the same pictures realised a hundred guineas each. The effectual demand, therefore, varies with the price; an adjustment takes place, the price ultimately being such that the effectual demand which results from it will be satisfied by the supply of the article in question. If one of Turner's pictures were to be sold, and three individuals, namely A, B, C, were each willing to give 1,000 guineas for it, the effectual demand for this picture, when its price is 1,000 guineas, would be manifestly greater than the supply; for at this price three persons have a demand for one article. If A and B are each willing to give 1,500 guineas for this picture, but C will not give so

BOOK III.  
CH. II.

*The statement that it is determined by the ratio of supply and demand is inaccurate.*

*Meaning of the term 'effectual demand.'*

*Nature of the adjustment between supply and demand which actually takes place.*

BOOK III.  
CH. II.*Higgling  
of the  
market.*

much, the effectual demand for this picture, when its price is 1,500 guineas, still exceeds the supply. Again, suppose that A is willing to give 2,000 guineas for the picture, but that B will not give more than 1,900; the price at which the effectual demand will equal the supply may then be any amount between 1,900 and 2,000 guineas. The price, however, which this picture might actually realise depends upon what has been aptly termed by Adam Smith the higgling of the market. Since B is willing to give 1,900 guineas for the picture, but no more; and since A will not purchase it at a higher price than 2,000 guineas, the picture must consequently sell at some price between 1,900 and 2,000 guineas. If A had certain knowledge that B would not give for the picture more than 1,900 guineas, A would probably offer to purchase it at a price slightly exceeding this, and at this price he would no doubt obtain the picture. If, however, the owner of the picture knew that A would give 2,000 guineas for it, rather than not possess it, he might pretend to hesitate about selling the picture to A, and might ultimately succeed in inducing A to offer 2,000 guineas. Demand and supply, therefore, determine within very narrow limits the price of all those commodities which may be classed under our first division. The price which is actually realised oscillates between these narrow limits, according as the vendor or purchaser has the most skill and knowledge of trading operations. Hence it appears that the prices of all those articles which are classed under our first division are regulated, not by a ratio between the demand and the supply, but by an equalisation of the demand to the supply. The notion of a ratio ought therefore to be discarded, since it is not a ratio, but an equation.

*The notion  
of 'ratio'  
between de-  
mand and  
supply  
must be  
discarded.**A further  
analysis is  
necessary.*

A further question may now arise. Why should A be willing to give 2,000 guineas for a picture, which B will not purchase at a greater price than 1,900 guineas, and for which C will not bid more than 1,000 guineas? A, it is said, considers the picture worth 2,000 guineas; but this is not a sufficient explanation. Why does he place this particular value upon the picture, whereas B and C place a less value upon it? A further analysis is consequently required. Value is composed of two elements, and these

*The two  
elements of  
value.*

BOOK III.  
CH. II.

*Absolute utility and difficulty of attainment.*

*The first exemplified in the case of water.*

*The second in the case of precious stones.*

two elements respectively arise, first from the use which the individual may have for the article, and secondly, from the difficulty he may have in obtaining it. These two elements, which are the components of value, may be symbolised by the letters U and D. U is supposed to signify value as depending upon utility, and D signifies value as depending on difficulty of attainment; both of these elements must always be present whenever an article has an exchange value. No commodity can be more essentially useful than water, yet water has never any exchange value, unless there is some difficulty in obtaining it. It is true that in large towns water has an exchange value, and it is consequently sold at a certain definite price; in this case, however, the element D is present, for in large towns there is a difficulty in obtaining water; the spontaneous supply which nature provides soon becomes exhausted, and water has at a considerable outlay to be brought from a distance. On the other hand, no article can obtain exchange value unless the element U is present; since difficulty of attainment will not make an article valuable, unless it either can serve some practical use or gratify some desire. A precious stone, such as a ruby, is prized as an ornament; it therefore has its use, because it serves to gratify a desire. It is generally said that rubies are very valuable, because they are so very difficult to obtain; but if, in consequence of a change in fashion or taste, they should ever cease to be prized as ornaments, they will then have no value at all, although it might be just as difficult to find a ruby as before. Both the elements U and D must therefore coexist in every article which has exchange value, for an article, however difficult to obtain, can have no value unless it is capable either of supplying some want, or gratifying some desire; on the other hand, no article can possess exchange value, if it can be obtained without difficulty, although the article may be of prime necessity.

It is not possible beforehand to predicate in what proportion the two elements U and D may combine to form the value or price of any particular commodity. In almost every case the price at which an individual purchases a commodity represents in value only a very small portion of the use or advantage which the possession of the

*The price may be determined by either or both of these elements.*

BOOK III.  
CH. II.

article confers upon the individual who purchases it. A person buys a coat for three pounds, because at this price a coat of the quality he requires is offered to him; but three pounds does not represent the use which the person who purchases the coat derives from it, for if he had the money he would no doubt give thirty guineas, rather than be without a coat; therefore, in this case, the element U only exerts a small portion of its whole force in determining the price of a coat. The price is in this case almost entirely regulated by D, or, in other words, by the difficulty of obtaining the coat. As, however, before remarked, U, although only partially operative, can never be entirely absent.

*The utility can be the sole element operative, only when the supply is absolutely limited.*

*Exemplified by the former instance.*

The example just quoted illustrates the manner in which the two elements U and D combine to produce the price of a commodity. U is in fact almost invariably only partially operative; this is the general rule, for the case may be regarded as a very rare exception when U as well as D both exert their full influence upon the price of an article. When such a case does occur, the purchaser of a commodity is guided, in the price which he offers for it, solely and entirely by the consideration of the use he expects to derive from the article. This can only happen when the supply of a commodity is absolutely limited. To explain this still further, let us revert to our original example, which supposes that three persons, A, B and C, are each anxious to purchase some particular picture by Turner; C will not give more than 1,500 guineas for it, B not more than 1,900, and A ultimately purchases it at a price between 1,900 and 2,000 guineas. With regard to C and B, 1,500 guineas and 1,900 guineas represent the value in use, which C and B respectively place upon the picture. This, therefore, is the monetary value of the element U, according to the individual opinion of C and B. In A's estimation, the value of the element U is greater, for to him the picture has a value of 2,000 guineas. As before remarked, the price which the picture actually realises will be some amount between 1,900 and 2,000 guineas, because if the price sank below the inferior limit there would be a greater demand for the picture than the supply; if the price exceeded the superior limit the demand would entirely cease, because this



superior limit denotes the greatest value in use placed upon the picture by the person who is most anxious to possess it. To recapitulate, therefore, it may be stated, that the following principle regulates the price of all those commodities whose supply is absolutely limited. The demand depends upon the price; the price must be such that the demand will exactly equal the supply.

The value in use which an individual may happen to set upon some particular article is the result of various motives, which it is almost impossible to analyse. Thus to one individual, A, the value in use of one of Turner's pictures is 2,000 guineas, for A would rather give this sum than be without the picture. To B, however, the value in use of the same picture is only 1,900 guineas. It is quite evident that various motives may induce a greater value in use to be attributed to this picture by A than by B; A may be a wealthier man than B, and money may consequently not be of so much importance to him. A may perhaps also have a superior taste for art, which makes his appreciation of a painting greater than that of B. A may also be influenced by a hope of future gain, since he may expect to realise considerable sums by granting permission to have the picture engraved, or he may think that after a few years have elapsed the demand for the works of the particular artist may so increase as greatly to enhance the value of the picture. In every case, a great variety of motives operate upon different individuals in determining the value in use which each may place upon any particular article.

The articles, the supply of which is absolutely limited, are so few in number, that it may be thought that the above example has been too minutely investigated. It is, however, somewhat curious that those principles of economic science which are apparently the most simple are usually treated with the greatest obscurity. With few exceptions, political economists have failed clearly to explain the principles which regulate the price of such a commodity as the one just considered.

In the succeeding chapter the causes will be analysed which determine the price of those commodities comprised in the second of the three classes previously enumerated at the commencement of this chapter.

*Value in use cannot be analysed.*

*The value of the class of articles absolutely limited is often obscurely explained.*

## CHAPTER III.

### ON THE PRICE OF AGRICULTURAL AND MINERAL PRODUCE.

BOOK III.  
CH. III.

*Agricultural produce is subject to considerable fluctuations in price.*

*Determination of the ordinary profits of farming.*

IT is desirable to devote a separate chapter to the consideration of the laws which determine the price of agricultural produce. In all questions relating to price, a broad distinction must be drawn between agricultural and manufactured produce. As previously stated, an increase in the demand for the former usually causes an advance in price: whereas the supply of manufactured commodities can be, as a general rule, increased without producing any material advance in their price.

Many causes make the price of agricultural produce vary from year to year. Our corn markets are influenced not only by the productiveness of the last harvest, and by the prospects of the next, but they are also greatly affected by the good or bad crops of other countries. Since so many circumstances cause a great fluctuation in price, it may perhaps appear impossible to establish any general laws with regard to the price of agricultural produce. It will however be shown that the variations in the price of such produce, though constant and great, obey certain laws with strict regularity.

No farmer will rent land unless he believes that the price which the produce realises will, on the average of years, suffice to pay his rent and all the expenses of cultivation; a surplus must also remain adequate to remunerate him, not only for the capital he has invested in the business, but also for his own labour of superintendence. When the farmer is fairly remunerated for his labour and capital he may be considered to realise the ordinary profits of trade. It is quite impossible that the prices in any particular trade can permanently be so low as to prevent

these ordinary profits being realised; because no traders would be satisfied to continue investing their capital in a business if much smaller profits were realised from this business than from others. From these considerations the following principle may be deduced—the price of agricultural produce must be such as will enable farmers on the average of years to realise the ordinary profits of trade.

The profits of the farmer have above been described as the surplus which remains when all the expenses of cultivation have been deducted from the pecuniary value of the annual produce of a farm. These expenses include rent, the wages of labourers, the purchase of new implements, the wear and tear of old implements, the loss which arises from the ordinary casualties to which live stock is liable, &c. It must be evident that any cause which increases the farmer's expenses must diminish his profits. Suppose the average annual value of the produce raised from a farm is 2,000*l.*, and that the expenses of cultivation are 1,500*l.*, the farmer having to pay 500*l.* in rent, 800*l.* the wages of his labourers, and the remaining 200*l.* being required for various other necessary expenses, such as the purchase of implements, &c. Deducting the 1,500*l.* from the 2,000*l.*, which is the annual average value of the produce of the farm, it is evident that the 500*l.* which remain would be the farmer's profits. Now let it be further assumed, that this 500*l.* is a fair remuneration to the farmer for his capital and labour of superintendence. Consequently, when his profits are 500*l.*, he may be considered to realise the ordinary profits of trade. In this case, the prices obtained for the produce cause everything to be in a state of perfect adjustment. It, however, frequently happens, that the rent of land in the course of a few years considerably rises. Let us inquire what will occur if the rent of this farm is increased from 500*l.* to 700*l.* a year, whilst the price of agricultural produce, and the expense of cultivating the farm, remain unchanged. This increase of rent would reduce the farmer's profits from 500*l.* to 300*l.*; but it has been above assumed, that when his profits were 500*l.* he obtained no more than the ordinary remuneration for his capital and labour of superintendence. He consequently receives less than the

BOOK III.  
CH. III.

*They are determined by the average value of the produce after deducting the rent.*

*Effects of a rise of rents.*

BOOK III.  
CH. III.

*Cause of a  
rise of  
rents as  
deduced  
from Ri-  
cardo's  
theory of  
rent.*

ordinary remuneration when his profits are reduced to 300%. He therefore virtually cultivates his farm at a loss, because he would secure a larger income if he applied his capital and energy to some other business. Under these circumstances, farmers would be induced gradually to leave their farms, and the land would be thrown out of cultivation. But as it is necessary that the people should be fed, the land must be cultivated. It may therefore be concluded, that neither rent, nor any other items of the expense of cultivating land, such as cost of labour, can be increased, unless the farmer receives a compensating remuneration from a rise in the price of agricultural produce. Let us now, however, revert to Ricardo's theory of rent, in order to understand how a rise in rent is produced.

This theory describes rent as a price which is paid for the use of an appropriated natural monopoly. This monopoly arises from the fact, that the supply of fertile land which can be brought under cultivation in any particular country, cannot be increased beyond certain limits. The difference between the rents paid for two different farms represents the excess of the pecuniary value of the one farm above that of the other, whether derived from greater fertility or from superior advantages of situation. The land of each country varies so greatly in fertility, that every country possesses some barren tracts which are too poor to be cultivated, even if granted rent free. England has soils of every degree of fertility, from the barrenness of her Yorkshire and Devonshire moors, to the rich luxuriance of the weald of Sussex and Kent. There will consequently always be some land which may be considered to be on the margin of cultivation. Such land will pay for cultivation if let at a merely nominal rent. Hence Ricardo's theory of rent defines the rent of any particular land to be the pecuniary measure of the degree by which it exceeds in productiveness that land which is just upon the margin of cultivation. It is evident that in the absence of agricultural improvements and the increase of importation from abroad the margin of cultivation descends as the population of the country increases, for it becomes necessary gradually to resort to less productive<sup>1</sup> land, in order

<sup>1</sup> The epithet "productive" here includes fertility and advantages of situation.

to supply a larger demand for food. But as the margin of cultivation descends, rents must rise, because as less productive land is brought under tillage, the greater will be the difference between the produce raised from any particular land and the worst land under cultivation, and rent may be regarded as the pecuniary measure of this difference. The worst land, however, which is in cultivation at any particular time, will only just bear a nominal rent, and does no more than return the ordinary rate of profit to the farmer for his labour and capital. If, as population increases, it is necessary to bring still worse land into cultivation, it will be manifestly impossible to till this land except at a loss, unless a rise takes place in the price of agricultural produce. Hence this principle is established—that the price of agricultural produce must always be such as will enable the ordinary rate of profit to be obtained from the worst land in cultivation, which pays a merely nominal rent. It can be easily shown, from this proposition, that rent is not an element of the price of agricultural produce; or, in other words, corn and food would not necessarily be cheaper if every farmer's rent in England were remitted for a term of years. As this proposition may at first sight appear to be a somewhat startling paradox, it will be well to explain it in some detail.

Let it be assumed that every farmer has the rent of his farm remitted for the next thirty years: all the land cultivated would then be rent free. The question arises, Would this change produce any effect upon the price of agricultural produce? The quantity of agricultural produce required, in any particular country, is not affected by the amount of rent paid for the use of land. If, therefore, all the land of England were made rent free, there would be no reason to suppose that either more or less agricultural produce would be consumed than when the present rents were charged for land. The same area of land would therefore have to be cultivated; the margin of cultivation would neither ascend nor descend. That land, however, whose fertility is such as to place it just on the margin of cultivation, paid merely a nominal rent before the supposed change was introduced which made land rent free. The price of agricultural produce was, previous to this change, such as to enable the farmer to realise the

*Conclusion:  
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*Proof that  
rent is not  
an element  
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agricul-  
tural pro-  
duce.*

*The price of agricultural produce tends to rise as population increases, but this rise is partly counteracted,*

*by importation of corn,*

ordinary profit of trade upon this land; the land would not, of course, continue to be cultivated, if the price of agricultural produce was not sufficient to enable such profit to be obtained. But even if all rents were remitted it would still be necessary to cultivate this particular land, because there is no reason to suppose that the country will require less agricultural produce than before. Hence the price of agricultural produce cannot decline in consequence of a remission of rents, since, if such a decline in price occurred, much of the land which was previously cultivated at a merely nominal rent would cease to return the ordinary rate of profit, and would therefore be thrown out of tillage; but this cannot take place, because the demand for agricultural produce is as great as it was before. Hence if all the land of the country were rent free, it would not necessarily follow that the price of agricultural produce would be reduced. It may therefore be concluded, that the price of agricultural produce is not affected by the payment of rent. The price is really determined by the demand for agricultural produce; because, as the demand increases, it is necessary to resort to less productive land. As the population of a country increases, the demand for agricultural produce becomes greater. Hence the price of agricultural produce tends to rise as the population of a country advances. This rise in price may be counteracted in the two following ways:—

1st. The introduction of agricultural improvements may supply a country with an increased quantity of food, without extending the area of cultivation.

2nd. The increased quantity of food required by a country whose population is advancing may be supplied by foreign importation.

The effect of the importation of food, either in reducing prices or in preventing them rising, will be fully explained in the chapter on international trade. The last few years have afforded a striking example of the influence produced by the importation of corn. Since the repeal of the corn laws a very great increase in our population has taken place, but so vast have been the importations of corn, that there has been no rise in its price. It is however more difficult and costly to import fresh meat than corn; consequently, although considerable quantities of fresh meat and

live stock have been imported, these importations have not kept pace with the steady increase in the demand. Fresh meat has advanced in price, and it was never so dear as it is at the present time (1883). Whether or not this rise in price will continue must mainly depend upon the extent to which it will be possible to increase the supply of fresh meat by improvements in English agriculture or by the introduction of greater facilities for importation such as would follow on the discovery of any better and cheaper method of preserving meat through freezing it. The introduction of important agricultural improvements has also assisted in meeting the increased demands for food. Drainage has produced fertility, where before all was useless sterility. Moreover, new agricultural implements, such as the steam plough, may yet be destined so much to economise labour, that land which will not now pay to be cultivated may be made to return a remunerative profit, without any rise in the price of agricultural produce. In the absence, therefore, of agricultural improvements, it may be said that the price of agricultural produce is determined by the extent to which the demand for it has to be satisfied from the soil of the country itself.

If the importation of food does not keep pace with the increased wants of an advancing population, the price of agricultural produce must inevitably rise.

The price of mining produce is regulated by laws very analogous to those which determine the price of agricultural produce. Mineral deposits vary in richness, in the same manner as land varies in fertility. Some mines are more expensive to work, and less advantageously situated than others; just in the same way as land may be inconveniently situated, because remote from markets. Suppose the price of iron declined one half; a great number of the existing iron mines would at once cease to return any profit, and could not be worked except at a very considerable loss. But people will not continue investing their capital if they cannot realise upon it an adequate profit, and therefore such a reduction in the price of iron would cause all the least productive mines to be shut up; the supply of this metal would consequently be greatly diminished. If this diminished supply sufficed to satisfy the demand, the reduction in price might be permanent.

BOOK III.  
CH. III.

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the price  
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duce.*

BOOK III.  
CH. III.

There are  
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the natural  
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mined.

But if the demand was in excess of the supply, a rise in the price of iron must follow, because, without such a rise, no adequate inducement could be offered to increase the supply by reopening those mines which a reduction in price had caused to be closed. It therefore appears, that the supply of iron which is forthcoming at any particular time depends upon the price which this metal realises, because the price determines what mines can be worked at a profit. The following adjustment must therefore take place: the demand varies, *cæteris paribus*, inversely with the price, for the greater is the price the less will be the demand. On the other hand, however, the supply varies directly with the price, because the greater the price the greater will be the supply. If the price is too great, the supply will exceed the demand; if the price is too low, the demand will exceed the supply. The price, therefore, must be such as to adjust the demand to the supply. When the price reaches this point, it is in a position of equilibrium.

It is no doubt quite true that there are constant variations in price, which prevent this position of equilibrium being continuously maintained, but this does not lessen the importance of ascertaining that such a position of equilibrium really exists. The discovery that the planets move in ellipses was justly regarded as a most important scientific truth, and the importance of the discovery was not diminished, although it was afterwards proved that the planets are constantly disturbed from their elliptic orbits by a great number of small perturbing forces. The elliptic orbit of a planet may be regarded as a position of stable equilibrium, because, as the planet is disturbed from this position, a force will be generated to restore equilibrium, and the intensity of this force, if the disturbing cause continues, will so constantly increase, that in the end it must prove effectual. In a similar manner a position of stable equilibrium is defined, when the price of iron is such as to equalise the supply to the demand; the price does constantly oscillate about this position, but these oscillations cannot exceed certain limits, because an agency is generated, as in the case of the planetary elliptic orbits, to restore the price to its position of equilibrium. The price so determined has, by Adam Smith and others, been termed the natural price.



As we have endeavoured in this chapter to explain the manner in which an increase or a diminution in the demand for agricultural and mineral produce causes a rise or fall in price, it may be necessary to point out that an alteration in the demand is not necessarily accompanied by a proportionate alteration in price. It will not be difficult to show that it is impossible to lay down precise rules as to the effect exerted on price in any particular case by a certain alteration in the demand. Thus it may sometimes happen that a rise of 20 per cent. in the demand may produce an increase of price of more than 40 per cent., whereas it may also happen that an increase of 20 per cent. in the demand may create an increase of not more than 5 or 10 per cent. in price. The extent to which the price is affected obviously depends upon the difficulty of meeting the increased demand. If, when more corn and coal are required, the additional corn can be grown on land nearly as productive as that previously cultivated, and if the additional coal can be obtained by working seams but slightly more expensive to work, then it is evident that an increase in the demand may create a much less than proportionate increase in price. As soon, however, as it becomes necessary to resort to much less productive sources of supply in order to satisfy an increased demand, there may then suddenly occur a rise of price which may be out of all proportion to the extra demand. The remarks which have just been made suggest an explanation of the great and sudden rise in the price of coal which took place in 1872. For many years there had been a steady increase in the demand for coal, and yet the extra coal was produced without causing any important rise in its price. This no doubt arose from the fact that the additional coal required could be obtained without resorting to seams which were more expensive to work, and without pressing unduly upon the available supply of labour. At length, however, the demand reached a point when it could not be met without resorting to much less productive sources of supply. Deeper shafts had to be sunk, thinner seams had to be worked, and consequently there was a rise in the price of coal sufficient to provide compensation for this greater cost in producing it. Another circumstance was also brought into operation to

BOOK III.  
CH. III.

*The rise in price not always proportionate to an increase in the demand.*

*Rise in the price of coal in 1872.*

BOOK III.  
CH. III.*Great burden thrown on the nation.*

increase the cost of obtaining coal. When all the workmen in any particular industry are employed, there are, in the absence of improved mechanical appliances, only two ways of increasing the supply of labour. In the first place, those who are already employed in the particular industry may be induced to work a greater number of hours a day, by the offer of higher wages; or, secondly, labour may be imported from other industries. It is evident, whichever course is adopted, that a rise in wages must ensue. It has, however, been shown that the great rise in the price of coal, just alluded to, was to be attributed in a far greater degree to the increased cost of getting coal, than to a rise in the wages of colliers. From the evidence which was given in 1873 before a Select Committee of the House of Commons appointed to investigate the causes which had produced the rise in the price of coal, it appears that less than one-fifth of the rise which took place was due to an increase in the wages of colliers. The increase in their wages did not account for a rise of more than 2s. 6d. a ton, whereas the rise in price at the pit's mouth was certainly not less than 13s. 6d. a ton. It therefore follows that more than four-fifths of the increase in the price of coal was added as extra profits on all the coal obtained from sources of supply that were previously worked. As the annual output of coal at that time was about 120,000,000 tons, the amount of extra profit thus obtained by the owners or lessees of coal mines may be estimated at 66,000,000*l.* a year while the exceptionally high price lasted; while the extra amount annually paid in wages was not more than 15,000,000*l.* It can be scarcely necessary to point out that this rise in the price of coal imposed as real a burden upon the community as if the taxation of the country had been increased by an amount equivalent to the rise in the price of the coal retained for home consumption. The amount of coal used for domestic purposes in this country is about, 20,000,000 tons per annum. Assuming that the rise in price was 13s. 6d. a ton, the burden thrown upon the householders of the country was equivalent to the imposition of an income-tax which would yield 13,500,000*l.* a year. To obtain this sum an addition of about 6½*d.* to the income-tax would be required. There is, however, this difference between a burden thus imposed upon the people

and an income-tax which would yield 13,500,000*l.* a year. An income-tax is not levied upon very small incomes, whereas even the poorest person must bear his share of the burden which is imposed by a rise in the price of coal. It is also to be remarked that the loss which the community suffers from a rise in the price of coal is not to be estimated by simply considering the amount of coal which is used for domestic purposes. A rise in the price of coal must ultimately increase the cost of producing manufactured commodities, and it will be shown in the next chapter that the price at which manufactured commodities are sold to the consumer depends upon the cost of producing them. The nation may obtain one compensation for the loss resulting from a rise in the price of coal. It cannot be doubted that the comparative cheapness of coal led to very wasteful methods of burning it, both for manufacturing and domestic purposes. The rise in its price caused the adoption of many contrivances for economizing its use. As geologists agree that the available supplies of coal in this country are by no means inexhaustible, it is evident that the prevention of waste is of great importance, not only to those who are now living, but to future generations.

Many causes have combined to prevent coal permanently retaining the remarkable advance in price which it reached in 1872. Towards the close of 1874 the price of coal began to decline, and this decline went on so rapidly that in about two years time its price had receded almost to its former level. This fall in price may be regarded as partly due to accidental circumstances, but no doubt the fall has also been partly produced by causes which are certain to come into operation whenever there is a period of such exceptional prosperity in a trade that the profits and wages obtained by those engaged in it greatly exceed their ordinary rate. With regard to those accidental circumstances which we have described, it may be mentioned that soon after the great rise in the price of coal took place, there was a marked change in the general commercial condition of the country. The extraordinary activity of trade which had continued for many years was succeeded by a period of industrial depression, and in no branch of industry was this depression more strikingly exhibited than in the

BOOK III.  
CH. III.

*One compensation  
for a rise  
in the  
price of  
coal.*

falling off both in the foreign and home demand for iron. In a single year between 1873 and 1874, there was a decline of no less than 25 per cent. in the quantity of pig iron produced, and even this diminished quantity could only meet with a sale at considerably reduced prices. Consequently the iron masters not only greatly diminished their purchases of coal, but they could only afford to pay a much lower price for it. When it is remembered that the great development of the iron trade was one of the chief causes which contributed to the rise in the price of coal, it naturally follows that the decline of this trade exerted a corresponding influence in reducing its price. This fall in price was no doubt assisted by the depression in the general industrial condition of the country. Coal is of course largely used in every industry in which machinery is employed, and, consequently, inactivity of trade is sure immediately to affect the demand for coal. But even had there not been this depression of trade there were other circumstances in operation which would have caused a reduction in the price of coal. The exceptionally high profits and wages earned in the coal trade led to a largely increased production. New mines were opened in all directions, new shafts were sunk, all available labour was pressed into this particular industry, and in fact everything was done to stimulate increased production. What happened in this case, as previously pointed out, is sure to occur whenever any trade becomes exceptionally prosperous. It is obvious that it would have been impossible for the high price of coal to be maintained unless the increased production, stimulated in the manner just described, had been accompanied by a corresponding increase in the demand for coal. But far from this being the case, we have seen that just at the very time when the new mines that had been opened began to yield their additional supplies, there was a depression of trade, and consequently a considerable falling off in the demand for coal. The decline in the price of coal was therefore assisted by two powerful circumstances, an increase in its supply occurring simultaneously with a diminution in the demand.

## CHAPTER IV.

### ON THE PRICE OF MANUFACTURED COMMODITIES.

IN this chapter the price of those articles will be considered which were placed in the last of the three classes previously enumerated. To such commodities the name of manufactured articles is given; because the name suggests the leading points of difference between these commodities and those the price of which was considered in the last chapter. It may be thought that no such distinction really exists; a manufactured article, it might be said, is in one sense either an agricultural or a mineral product. A piece of linen cloth is woven from flax, which is in every sense of the word as much an agricultural product as the wheat from which a loaf of bread is made. Since, therefore, bread and linen cloth are both made from the produce of agriculture, it may appear that the laws which regulate the price of one ought to regulate the price of the other; and that, therefore, those laws of price which were enunciated in the last chapter, with regard to agricultural and mining produce, will equally apply in determining the price of such a commodity as a piece of linen cloth. But there is this distinction: the value of agricultural and mining produce is almost entirely derived from the value of the raw material; whereas the value of the raw material from which a manufactured article is made only forms a small portion of the entire value of this particular article. The reason of this must be manifest to all. Before a bundle of flax can be woven into a piece of linen cloth, it must pass through many different processes, carried on by many different classes of labourers. Not only must all these labourers be remunerated, but the employers of these labourers have advanced

BOOK III.  
CH. IV.

*Commodities of which the supply can be indefinitely increased without increasing the cost of production.*

*The value of the raw material forms a small part of the value*

## BOOK III.

## CH. IV.

*of manu-  
factured  
goods.*

*The price  
of manu-  
factures  
need not  
increase  
with an in-  
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*as only one  
of the ele-  
ments of  
their value  
is affected.*

capital and invested money in expensive machinery, and for all this outlay they must receive an adequate compensation. There must, therefore, be such a difference in the price of the flax in its raw state, and the price of the linen cloth into which it is woven, as will serve to give both to the employers and their labourers all the remuneration just pointed out. The value, therefore, of the raw material forms only a very small portion of the whole value of the particular article into which it is manufactured. It is this circumstance which causes the price of manufactured commodities, and the price of raw produce, to be regulated by very different laws.

Unless a fresh discovery is made, or unless improved machinery and improved methods of production are introduced, it is generally impossible to increase the supply of mining produce without resorting to less productive sources, or to increase the supply of agricultural produce without resorting either to less fertile land or to more expensive culture. Such produce therefore, in the absence of counteracting circumstances, must rise in price as it becomes necessary to increase the supply, in order to meet a larger demand. But the same law does not apply in the case of a manufactured article. If it were known that the quantity of linen cloth required to be manufactured in this country would increase twenty per cent. in the next two years, manufacturers of linen would have to increase their purchases of raw flax by twenty per cent. This increased demand for flax would cause its price to rise, in obedience to the principles enunciated in the last chapter. This rise in the price of flax would, of course, produce some effect on the price of linen; because the manufacturers of the linen must be compensated for the higher price which is paid for the raw flax. But since the value of the flax forms only a very small portion of the whole value of the cloth into which it is woven, it follows that the rise in the price of the cloth due to the rise in the price of flax will be, comparatively speaking, small. Thus we are informed that a rise of twenty per cent. in the price of flax would not cause the price of linen cloth to rise as much as five per cent. The causes, therefore, which affect the price of raw produce also influence the price of manufactured commodities, but only

to a limited extent. If we omit the very trifling rise in price, in a manufactured commodity, which results from an increased demand for the raw material, there is no reason why the price of manufactured commodities should in any way be affected by an increased demand for them. An increased demand for linen cloth to the extent of twenty per cent. need not necessarily influence any of the elements, with the exception of the price of the raw material, of which the cost of producing this cloth is composed. Machinery need not be more expensive, the wages of labour need not necessarily rise; it is even quite possible to suppose that the production of an article may be cheapened as its supply is increased, because when commodities are manufactured on a large scale many of the processes of the manufacture can often be economised. For instance, division of labour makes labour cheaper and more efficient; machinery on a large scale almost invariably works at less comparative cost than machinery on a smaller scale. A steam-engine exerting the same propelling force as two smaller engines will originally cost less than the two, will consume a smaller quantity of fuel, and will not require the same amount of labour to superintend it. It is therefore quite possible that an increased demand for a manufactured article may diminish its price. To illustrate this the following example may be quoted. An American, Mr Nathan Thompson, recently invented a most ingenious machine for sawing and cutting, in their proper form, the planks of which light boats are made. It has been calculated that so much labour and time would be saved by this machine that the cost of a boat would be reduced at least thirty per cent. People therefore confidently predicted that the machine would be introduced, and that boats would inevitably decline thirty per cent. in price; but this is too hasty a conclusion. It must be remembered, that so great is the rapidity with which this machine works, that a very few of these machines would soon turn out a great many more planks than are required in the construction of all the boats which are built in a year. The demand, therefore, for boats would not be sufficient to keep these machines fully at work. This would involve considerable loss. In the first place, a machine, when not at work, must be regarded as capital

*The cost of production of manufactures may diminish as the supply increases.*

*Illustration of this principle from boat-building machinery.*

*A rise in the wages of labourers must be compensated by a rise in the price of the products of their labour.*

lying idle, and secondly, the men who attend it would be employed irregularly. Such labour is always expensive, because a man has to receive some remuneration for the time when he is not at work. These machines, therefore, can only exert part of their effect, in reducing the price of boats, as long as the demand for boats is not sufficient to keep them actively at work. It is not improbable that this invention will for some time effect no sensible reduction in the price of boats, because in so limited a trade people may hesitate to introduce expensive machines, and therefore boats may continue to be made according to the old plan in spite of the demonstrated excellence of Mr Thompson's invention. But if a much greater number of boats were required to be made, no doubt these machines would be generally introduced, and nothing could then prevent a reduction in the price of boats proportionate to the decrease which these machines effected in the cost of making boats.

It frequently happens that the wages of the labourers employed in the manufacture of a particular commodity advance as the demand for the commodity increases. If this occurs, these particular manufactured goods will rise in price, in order that the employer may be compensated for the higher wages he is now obliged to pay. Suppose that, at a time when the activity of the cotton manufacture affords constant employment to all those accustomed to the trade, a new market for our cotton goods is suddenly opened. In order to satisfy this new demand the cotton manufacture must be extended; new hands will have to be imported into the trade, and such untrained labour must for a time be, comparatively speaking, inefficient, and therefore more expensive than the labour of those who are accustomed to the trade. The period just preceding the American civil war afforded an example of this. So rapidly was the cotton manufacture extended in consequence of the large exports of cotton goods to the East, that the supply of labour in the district proved to be inadequate. The manufacturers, therefore, sent agents throughout the country in search of labourers, and in one agricultural village in the Eastern Counties no less than a hundred labourers—including men, women, and children—were engaged for the purpose of being employed



in some of the Lancashire mills. To these persons high wages were of course offered, in order to induce them to leave their own locality. But such labourers could not be worth so much as those who by practice had acquired skill in that trade. The regular Lancashire operatives, therefore, obtained a very important rise of wages; and it is impossible for such a rise of wages to occur without increasing the cost of producing cotton goods. The question, therefore, arises—By whom is this increased cost borne? Would it come entirely out of the manufacturers' pockets, or would it be borne by the purchaser of cotton goods? The answer to this question will be found to involve an explanation of the principles by which the price of manufactured commodities is determined. It will, in the first place, be proved that the manufacturers will be compensated for the rise of wages by a rise in the prices received by them from the purchasers of cotton goods. When discussing the subject of profits, it was pointed out that the profits of each particular trade approximate to a certain average. The constancy of this average is maintained by the competition of capital. We do not mean to say that the profits of the butcher approximate to the profits of the cotton manufacturer, for there are causes which must create a permanent difference between the profits of these two trades. But although the average profits realised in different trades may greatly and permanently differ, yet there is a certain rate of profit belonging to each trade, which is termed the natural rate of profit for that trade. Such a rate of profit indicates a point of equilibrium about which the average profits of the trade may be considered to oscillate. Sometimes they fall short of this point, sometimes they go beyond it, but the competition of capital is an agency which is ever at work to restore the average rate of profit to this position of equilibrium, whenever disturbed from it. It is impossible precisely to tell what will be the average rate of profit realised in a particular business. Let us suppose that, in the cotton trade, it is ten per cent. upon the whole capital invested. There is always in this country a vast amount of capital ready to be exchanged from one investment to another, if the slightest additional profit can be realised. Such a rapid transfer

*Proof of  
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sition.*

*The aver-  
age rate of  
profit in  
each trade  
is deter-  
mined by  
the migra-  
tion of  
capital.*

BOOK III.  
CH. IV.

*If wages were increased without an increase of price, profits must fall in the trade affected.*

*Hence the price is certain to rise.*

*The price of manufactures is*

may be regarded as a proof that the competition of capital is active. Having, therefore, assumed that the average rate of profit in the cotton trade is ten per cent., let us attempt to trace what will occur if the profits realised in this trade are, by some disturbing cause, reduced below ten per cent.; this being the natural rate of profits as determined by the competition of capital.

The rise in the wages of the cotton operatives which was caused by the increased demand for cotton goods in the East, was quite sufficient to have reduced the profits of the cotton manufacturers from ten to seven per cent. But if not more than seven per cent. were realized, the cotton manufacturer would be placed in an exceptionally unfavourable position, for it has been supposed that his business, after making allowance for all the various circumstances connected with it, will be less remunerative than other branches of industry, unless a profit of ten per cent. can be secured. Cotton manufacturers, therefore, would show an anxiety to contract, rather than to extend their operations, for they would be naturally desirous to withdraw as much capital as possible from their own comparatively unremunerative business, and place it in other more lucrative investments. The manufacture of cotton goods would consequently be diminished just at the time when it ought to be extended, in order to meet the increased demand. But it is easy to show that such a contingency could not actually occur. An increased demand for cotton goods means an increased desire to possess them, accompanied with the requisite means to purchase them. Those individuals who want cotton goods will much prefer to pay a somewhat higher price for them rather than go without them altogether. Such a higher price, therefore, will be offered for cotton goods as will compensate the manufacturer for the increased wages which he is compelled to pay to his operatives. But the demand for a commodity is always diminished if its price is increased. The demand for cotton goods will not be so great as it would have been but for the rise in the price of these goods necessary to compensate the manufacturer for the augmented cost of production resulting from a rise in the wages of labour. Hence it would appear that the price of manufactured commodities is regulated by two

principles. The first of these principles determines the average price of a commodity; this price we have before described as a position of equilibrium from which there may be frequent temporary variations. The second principle accounts for these variations, and indicates the laws by which they are regulated. The meaning of this may perhaps be better explained by referring to an illustration already noticed. The orbit of every planet is mainly determined by the attraction of the sun; and its orbit, so far as it depends on this attraction, is accurately an ellipse. But each planet is acted upon by an almost infinite number of small disturbing forces, which cause it constantly to deviate from an accurate elliptic orbit. Although a planet, therefore, never continues even for a short period to move in an ellipse, yet for many purposes it is sufficiently ~~accurate~~ to consider that the ellipse is its real ~~orbit~~. Other phenomena however, most important to be considered, depend entirely upon those small disturbing forces which produce the variations in a planet's elliptic orbit. Hence astronomy requires not only that the main cause of a planet's motion should be explained, but also that the laws of the disturbing forces which act upon it should be enunciated with equal care and precision. We will now show the analogy which we have been indicating, by stating the two principles which regulate the price of a manufactured commodity.

1st. The price of each manufactured commodity must, on the average, approximate to its cost of production. The term 'cost of production' includes not simply the cost of material, and the wages of labour, but also the ordinary profit upon the capital employed in producing the particular commodity.

2nd. The demand for a commodity varies with its price, and the price at any particular time must be such as to equalise the demand to the supply.

With regard to these two principles it may be remarked, that the first controls prices in the following manner. The price of any manufactured commodity cannot permanently to any considerable extent either exceed or fall short of its cost of production. If the price were greatly in excess, the producer would secure very much more than the ordinary rate of profit; and on the other

BOOK III.  
CH. IV.

*therefore determined by two principles, one determining the average price, the other, the oscillations about it.*

*Statement of these principles.*

*The average price approximates to the cost of production.*

BOOK III.  
CH. IV.

hand, if the price of a commodity were much less than the cost of its production, the profits of those who produce the commodity would fall materially below the ordinary rate. But the competition of capital prevents the profits of any particular trade continuing, for a length of time, either above or below the ordinary rate of profit. With regard therefore to the price of a commodity, its cost of production may be regarded as a position of stable equilibrium, and whenever disturbed from this position, the competition of capital is at once brought into action, to restore equilibrium. Just in the same way the elliptic orbit of a planet may be regarded as a position of stable equilibrium: the planet is constantly disturbed from this position, but the attraction of the sun is at once brought into operation to restore its equilibrium.

*The oscillations are determined by variations in the supply and demand.*

*Illustration of the second principle from the Birmingham gun trade.*

Although the competition of capital makes the profits of each trade and the price of each commodity tend towards what has been termed the natural rate, yet it is a matter of ordinary observation, that there are temporary fluctuations in the prices of all commodities which correspond to the temporary variations in the profits which are realised in any particular trade. Such temporary fluctuations in the price of a commodity, and in the profits of any particular trade, are produced by variations in the demand and supply. Many striking instances of these variations in price, consequent on a sudden variation in the demand for a commodity, were afforded by the circumstances of the American civil war. Let us take the case of the Birmingham gun trade, which was thrown into a state of sudden activity, in consequence of the purchase of a large number of rifles both by the Federal and Confederate armies. Before this sudden demand arose, the rifle trade was in its ordinary condition; the price of rifles closely approximated to the cost of producing them, and the natural rate of profit consequently prevailed. When, however, an unusually large number of rifles was suddenly required, the price for a time rose greatly above the cost of production; in fact, the cost of production temporarily ceased to be the controlling force in regulating the price. These high prices of course stimulated the manufacturers to the utmost activity, and the greatest possible number of rifles was produced which could be manufac-

tured by the available resources of the trade. Time is, however, required to increase the supply beyond a certain point; the workmen accustomed to a trade are limited in number; and new workmen cannot acquire the requisite skill without a long and tedious training. Therefore the supply, even of a manufactured commodity, cannot be immediately increased beyond a certain point; hence a very great and sudden demand for a particular commodity may cause it temporarily to assume the same character as those commodities the price of which has been previously considered<sup>1</sup>, and of which the supply is absolutely limited in amount. It was shown that the price of such commodities must be so adjusted as to make the supply equal to the demand.

Although the price of a manufactured article may vary greatly from its cost of production, yet such a variation must be regarded as only temporary. If for instance the price of such a commodity greatly exceeds the cost of producing it, unusually large profits are realised by those who produce it, and thus a powerful inducement is constantly held out to increase the supply. But as the supply is increased, the price will have a constant tendency to decline, until at length the price approximates to the cost of production of the commodity, and the trade is again restored to its normal condition.

In order to prevent a possible misapprehension, it may be important to observe, before concluding this chapter, that the price of a commodity must be always such as to equalise the demand to the supply. This principle is equally true, both when the price is disturbed by sudden fluctuations in the demand and supply, and when the trade is in its normal condition, and the price of the commodity consequently approximates to its cost of production. Let us revert to the example just investigated, and assume that a rifle which is ordinarily sold at 5*l.* becomes worth 10*l.* owing to a sudden increase in the demand for rifles. It has been before remarked, that, when the demand for a commodity is suddenly increased, its price may temporarily cease to be controlled by its cost of production. The immediate available supply is limited; and it is therefore evident, that the increased demand cannot be imme-

*Hence the second principle is the same as that which regulates the price of commodities whose supply is absolutely limited.*

*The principle of the equalisation of supply and demand applies in all cases.*

<sup>1</sup> See Book II. Chap. II.

BOOK III.  
CH. IV.

Explanation of the process by which supply and demand are equalised when the price approximates to the cost of production.

diately satisfied. The demand of those will therefore be first met who are willing to pay the highest price; but, as the price of the commodity rises, the demand for it diminishes. Hence the price must continue to rise, until at length the demand is so much decreased that it can be satisfied with the immediately available supply, or, in other words, the demand becomes equal to the supply.

It now only remains to describe the process which equalises the supply to the demand, when a commodity is selling at its cost of production; or, in other words, when a trade is not disturbed from its ordinary steady condition. Let it again be assumed that a manufacturer of rifles will be adequately remunerated, and will obtain the ordinary profit realised in the trade, if he is able to sell his rifles at 5*l.* each. But, as previously remarked, the demand for any commodity varies, *cæteris paribus*, with its price. Hence it is quite possible that, when rifles are sold for 5*l.*, the demand for them may be either greater or less than the supply. If the first case should arise, and the demand exceed the supply, then the price of rifles would soon advance beyond 5*l.*, and the manufacturers of rifles would consequently obtain an exceptionally high rate of profit. If, on the other hand, the demand for rifles at 5*l.* each should be less than the supply, the price would become less than 5*l.*, and the manufacturers of rifles would continue their business at a comparative loss. But no branch of industry can permanently continue to be in the state implied by either of the two contingencies just alluded to; the competition of capital would, on the one hand, prevent manufacturers of rifles permanently obtaining an exceptionally high rate of profit; and, on the other hand, manufacturers would refuse permanently to continue their business, if a greater return could be secured by employing their capital in some other investment. Let us, therefore, consider what would really take place under the circumstances supposed.

Case when the demand is brought to exceed the supply.

The case assumes that there are no sudden fluctuations, either in the demand or supply, but that everything connected with the trade is in a steady condition. The cost of producing a commodity is composed of two elements; namely, profits upon capital, and wages of labour; it is therefore evident, that if either of these elements be

increased, the cost price of the commodity will also be increased. Thus, when certain wages are paid, the cost price of a rifle may be 5*l.*, but if these wages have to be increased, the cost price of a rifle may advance from 5*l.* to 6*l.* The assumption has been made, that if rifles are sold at 5*l.*, the demand will exceed the supply. Suppose that the price is slightly advanced beyond 5*l.*; the profits of the trade will thus be increased, an additional amount of capital will be brought into the trade, and the number of rifles made will be considerably augmented. All manufactured commodities, however, need skilled labour, and the requisite skill cannot be acquired without considerable training. Hence when a trade has to be extended, comparatively untrained labourers must be employed. The skilled labourers already engaged in the trade will consequently be eagerly competed for, and their wages will rise. If, however, their wages rise, the cost of manufacturing the commodity will increase; but a rise in the price of a commodity exerts an influence to diminish the demand; these causes will continue to operate, until at length the supply is made equal to the demand.

In a similar way we can explain the process of equalising the supply to the demand, when the demand for a commodity, selling at its cost price, is less than the supply. Suppose this case to arise with regard to rifles. Let it be assumed that the cost price of a rifle is 5*l.*, and that at this price there will not be so many rifles purchased as are manufactured; the price of rifles must therefore decline; it would however seem that, if they were permanently sold at 4*l.* 10*s.*, the manufacturers of rifles would lose by their trade, because they only realised the ordinary rate of profit even when 5*l.* could be obtained for a rifle. It must however be borne in mind, that some of those engaged in a trade often possess special opportunities for carrying it on profitably; their place of business may perhaps be in an exceedingly favourable situation, or they may themselves have a special aptitude for the business in which they are engaged. Again, as remarked in a previous chapter, those who possess sufficient capital to carry on production upon a large scale often obtain an exceptionally high rate of profit. When, therefore, the supply of a commodity exceeds the demand, two causes will exert an

*Case when  
the de-  
mand is  
less than  
the supply.*

BOOK III.  
CH. IV.

*In both cases an equalising force is exerted.*

influence to equalise the demand to the supply. In the first place, if the supply of the commodity is diminished, its cost price will also be diminished, because if less of the commodity has to be produced, only the most skilful workmen in the trade need be employed, and those only need continue the manufacture of the commodity who possess special advantages for producing it most cheaply. In the second place, as the price of the commodity is reduced, the demand for it will increase. These two circumstances, acting conjointly, must at length equalise the supply to the demand.

It has therefore been shown that, in all cases, there is a tendency in constant operation to make the supply of a commodity equal to the demand. This principle is equally true, whether the price of a commodity is simply regulated by its cost of production, or whether the price temporarily ceases to be regulated by the cost of production, in consequence of sudden fluctuations, either in the supply or in the demand.



## CHAPTER V.

### ON MONEY.

**T**HE last three chapters have been devoted to an investigation of the laws which regulate the price of various commodities. The course usually followed by political economists, is in the first place to treat of the value of commodities, and to defer any discussion of the laws of price until the functions of money have been fully explained. In pursuing this course, they perhaps adopt a logical method, because money, as a medium of exchange, must necessarily be involved in the meaning of the term price. It has however been thought expedient to adopt the course pursued in the last three chapters, because the investigation of a subject which must always be complicated is rendered more difficult by speaking of the value of a commodity instead of its price; the public almost invariably speak of the price of a commodity, and seldom consider its value by directly estimating the quantity of every other commodity for which it will exchange; moreover, the last three chapters, although relating to price, have not required anything to be assumed, with regard to the laws of money, which was not quite self-evident.

It has been already remarked, that price is a particular case of value. Every country, as it emerges from barbarism into the first stages of civilisation, has found it absolutely necessary to select some substance as a medium of exchange. Without such a medium, every trading transaction must be conducted by direct barter; the inconvenience of a system of barter is evident, for if the owner of a stack of corn wished to obtain clothes or fuel in exchange for his corn, he would be obliged to find some other

BOOK III.  
CH. V.

*Reasons  
for con-  
sidering  
questions  
of price  
before dis-  
cussing the  
functions  
of money.*

*Use of  
money.*

BOOK III.  
CH. V.

*Different  
substances  
used for  
money.*

individuals who are willing to give him clothes and fuel for the corn which he offers. Commerce, hampered by such impediments, could never advance beyond its rude beginning. Consequently, in each civilised nation, some substance is sure to be adopted as a medium of exchange, by the universal consent of society. A medium of exchange provides a standard with which to compare the value of every commodity, and by means of which the exchange of commodities is facilitated in a most important degree. Any substance may be selected as this medium of exchange; it has however been generally found most advantageous, for reasons which will be presently stated, to choose the precious metals as the medium of exchange. But various other substances have been used for a similar purpose by different nations. The Chinese have used pressed cubes of tea as their money; some African tribes employ the shells called cowries. It must therefore be borne in mind that it is not essential that money should be composed of the precious metals; whatever substance is adopted, by the general consent of society, as its medium of exchange, ought properly to be considered the money of that community. Thus, in China, money has consisted of those pressed cubes of tea we have spoken of; and, in Africa, the cowrie shells must be regarded as money. The money of our own, and of almost every other country, has so long been made of the precious metals, that we are naturally led to associate money with one or more of the precious metals. If, however, in any country, some substance is made to perform the functions of money, that substance is as justly entitled to be considered money as our own gold and silver coin. Even those nations enjoy the great advantage of possessing money, although they estimate the value of commodities by cubes of tea, and by cowrie shells, and exchange their goods for these substances, instead of buying and selling, as we do, for gold and silver. Such money, it is true, is rude and inconvenient, but even the possession of the rudest money indicates a great advance in civilisation beyond those tribes who have no money at all, and who are, therefore, compelled to conduct every trading transaction by barter. The reason why the precious metals are almost universally employed as money, in preference to any other substance,

will at once become evident by considering the purposes which money has to fulfil. The functions of money may be divided into two leading classes.

1st. Money serves as a measure of value.

2nd. Money is a universal medium of exchange.

We will proceed to consider the first of these functions. 'Measure of value' may perhaps with advantage be replaced by the expression, measure of wealth. Without some such measure, the amount, either of a nation's or of an individual's wealth, could only be stated by enumerating a long catalogue of commodities. Instead of saying that a farmer is worth 9,000*l.*, we should be able to form no other estimate of his wealth except by making an inventory of his possessions. The number of cows, horses, pigs, sheep, the quantity of corn, &c. he possessed, would all have to be separately enumerated. The value of a man's property is a meaningless phrase, unless there is some recognised standard of value. The value of a commodity is always supposed to mean its exchange value, for unless it has some exchange value it is not, in political economy, considered to have any value at all. No commodity can be more useful than water, but, as previously remarked, it is not wealth. It has in fact no exchange value, because when, as is usually the case, it can be freely obtained, nothing will be given for it in exchange. But no meaning can be assigned to the expression, exchange value of a commodity, unless it is known for what other commodity it is intended to be given in exchange. It is as correct to say, that the exchange value of a sack of wheat is a ton of coal, or a barrel of beer, as it would be to estimate the value of the wheat by so much gold and silver. Everything, therefore, with regard to the value of commodities, or the amount of wealth, is completely vague and indefinite, until society has agreed to select some particular substance with which the value of all commodities may be compared. Such a substance becomes an universal standard, or measure of value, and thus has attached to it the first of the two characteristics which entitle a substance to be considered as money. It is not necessary to select the precious metals for this standard of value, although they possess for this purpose many advantages which cannot be claimed by other substances.

BOOK III.  
CH. V.

*The two  
chief func-  
tions of  
money.*

*Money is a  
measure of  
value.*

*Advantages of an  
universal  
standard  
of value.*

BOOK III.  
CH. V.

*These might be partly secured by the use of other substances than the precious metals for money.*

*Money is a general medium of exchange.*

*Importance of these functions of money.*

Suppose a nation agreed to adopt wheat as the general measure of value, the value of all commodities would be referred to wheat as a standard, wealth would be estimated by so many quarters of wheat, and it would, under this supposition, be correct to say, that the price of an article was not so many pounds sterling, but so many quarters of wheat. One of the purposes, therefore, which money is intended to fulfil would be in this manner attained, for there would be one recognised substance to which the value of all other commodities might be referred. But when we proceed to consider the second important function which money is intended to perform, namely, a general medium of exchange, it will at once be understood that it would be impracticable to have such a substance as wheat for the money of a country.

When a nation possesses not only a measure of value, but also a general medium of exchange, every trading transaction is facilitated in the most important manner. There will then be a standard, by comparison with which the value of any commodity can be ascertained, and when the value is thus known, the commodity may be exchanged for a certain quantity of the substance thus chosen for the money of the country. But the fundamental characteristic of money is that it is a general medium of exchange; or, in other words, any commodity which may be required can be obtained by money. When, therefore, an individual exchanges a commodity for money, he obtains that which will give him the power of purchasing any article which he may require; in this manner the great inconveniences of barter are obviated, for under a system of barter a person who possessed one commodity could not without great difficulty exchange it for any commodities he might require. For instance, the owner of a quantity of wheat, if he wanted meat, fuel, or clothes, would have to search for those persons who were willing to give him these articles in exchange for wheat. Since an universal standard of value is provided by money, the values of all commodities are known and registered by this standard; or, in other words, the price of all commodities can be ascertained, since the price of a commodity is its value estimated in money. Money, therefore, enables the amount of wealth to be estimated, and when the price

of commodities is ascertained, the purchasing power of any sum of money is known.

The chief purposes which money is intended to serve have now been explained; we can therefore at once pass on to consider the particular qualities which should be possessed by any substance which is used as money. In the first place, it is most important that any general standard or measure should vary as little as possible. For instance, all distances are referred to a certain standard unit of length. How endless would be the confusion if this standard varied! A mile represents the same distance as it did a century since, and therefore, when a mile is mentioned, there can be no doubt as to the distance intended to be expressed. Weight, in a similar manner, is referred to a certain invariable standard; and, therefore, if it is said that the weight of a body is so many tons, there can be no ambiguity as to the weight which is meant to be described. It is, of course, quite as important that a standard of value should be as invariable as the nature of the case admits. It is obvious that it is impossible to obtain an absolutely invariable standard of value, because the value of every substance which is known to us is liable to variations. Some substances are, however, liable to much greater fluctuations in their value than others; and it is evident that these are quite unfit to fulfil the functions of money; the substance selected to be used as money should be liable to as few and as slight variations in its value as possible. This qualification is possessed in a high degree by the precious metals. If gold and silver were liable to as great fluctuations in value as wheat and cotton, it is manifest that money would be no uniform standard of value, although a pound sterling might always contain the same quantity of gold. The value of wheat and cotton fluctuates with almost every variation in the weather, and with almost every change in the politics of a nation. Unpropitious seasons have often been so destructive to the harvest, that wheat has been forced up almost to a famine price. These seasons of scarcity are now, so far as concerns our own country, in a great degree obviated by free trade, since we are now no longer restricted to our own soil for our supplies of corn. But even since the passing of free trade, there have been

BOOK III.  
CH. V.

*Qualities desirable in substances used for money.*

*As a standard of value it should be subject to as few variations as possible.*

*The value should not vary suddenly.*

*Advantages of gold and silver over other commodities in this respect.*

great variations in the price of wheat. In the year 1854, wheat was 90s. a quarter, in 1856 wheat was 40s. a quarter. The value, therefore, of any commodity not liable to such fluctuations would be, when compared with wheat, twice as great in 1856 as in 1854, assuming that gold remained constant. A ton of coal, for instance, would sell at the same money in 1856 as in 1854, but it would exchange for more than twice as much wheat in the former year as in the latter. If, therefore, wheat were chosen by a nation as a general standard of value instead of gold and silver, the value of all commodities estimated in wheat, or, in other words, the price of all commodities, might rise more than 100 per cent. in the short space of two years. Such great and sudden irregularities in price would throw commercial transactions into inextricable confusion. It is, therefore, evident that a substance should be selected as money which is subject to the smallest possible fluctuations in value; upon this quality mainly depends the efficiency with which money can fulfil the functions which are required from it, as a standard of value.

*As a medium of exchange money should possess an intrinsic value,*

Let us now inquire what qualities money ought to possess, in order that it should become a convenient medium of exchange. In the first place, the substance chosen as money must possess an intrinsic value of its own. This may appear to be contradicted by the fact that a portion of the money of England and many other nations consists of bank notes. In England, a person considers a Bank of England note for 10*l.* to be in every respect as valuable as ten sovereigns, yet the note has no intrinsic value whatever; thousands of such notes might be manufactured for a few shillings; whereas the ten sovereigns for which one of these notes can be exchanged have an intrinsic value of their own; if they were melted, they would be as valuable in bullion as in coin. The bank note derives none of its value from the substance of which it is composed; it is simply a written warrant of a promise to pay, whenever demanded, the sum which it represents. If all believe that this promise is certain to be strictly fulfilled, there can be no reason why the note should not be as freely accepted as money. But a nation can never feel this entire confidence, either in the promise of the

State or of private individuals, until Government becomes firmly settled, and commercial credit securely established. It is therefore necessary that the substance which is chosen as money should possess an intrinsic value. It has been explained, in a former chapter, that a substance acquires value from the conjunction of two qualities: in the first place, labour must be employed to obtain it, for the most essential necessities of life, such as water and air, have no exchange value, if spontaneously supplied by nature; secondly, no substance can have value unless it can be made to satisfy some want, or gratify some desire, of man. Hence, in order that the substance chosen as money should possess an intrinsic value, it must in the first place require labour to obtain it, and secondly, it must be regarded as useful for other purposes than being employed as money.

The last requisite possessed by money, upon which we shall remark, is, that it should be a commodity sufficiently expensive to contain great value in a small bulk. If this were not so, whenever any valuable article was sold, the money which it realised would be extremely cumbrous, and inconvenient to carry about, in consequence of its great weight and bulk. If we possessed no money but our copper coinage, the copper money equivalent to ten sovereigns would be a heavy load; and the inconvenience would be still greater if a less valuable metal than copper, such as iron, were selected.

Having now remarked upon the qualities which ought to belong to a substance which is used as money, we shall be in a position to appreciate the great advantage which the precious metals possess, as money, in comparison with any other substances. The first requisite is, that the substance of which money is composed should be liable to as few variations in value as possible. Gold and silver both fulfil this condition in a very striking manner. Although, as will be explained in a subsequent chapter, the discovery of new gold and silver mines may so much increase the supply of these metals as permanently to affect their value, yet they are liable to much less variation in value than is probably the case with any other substance. Changes of temperature so much affect the growth of agricultural produce, that the abundant crop

*and should  
be of great  
value in a  
small bulk.*

*Advantages  
possessed by  
gold and  
silver.*

*They do  
not sud-  
denly vary*

BOOK III.  
CH. V.*in value  
from year  
to year.*

of one year may be succeeded by great scarcity in the next. Such causes, however, can in no way influence the productiveness of mines. The demand for some commodities varies almost from day to day, and the variation causes those constant fluctuations in price alluded to in the last chapter. Gold and silver, except when used as money, are chiefly employed for the manufacture of ornaments, and various articles of luxury. Now it is evident that the demand for gold and silver plate does not vary greatly from year to year. The period since the gold discoveries may seem to offer an exception to the constancy in the value of the precious metals; for some years after the gold discoveries of California in 1848, and those of Australia in 1850, the annual yield of gold was increased at least 300 per cent. During the last few years some silver mines of such extraordinary richness have been discovered, especially in the United States, that the annual aggregate production of silver has increased from 7,000,000*l.* sterling to more than 19,000,000*l.* sterling<sup>1</sup>. There is no question of the day more important for the political economist to discuss than to trace the effects of these recent discoveries of the precious metals. This must be reserved for a separate chapter. Although it is not improbable that the value of gold and silver may in future years be depreciated by these or other discoveries, yet such sudden changes in the annual yield are extremely rare. In fact, history affords no other similar instance, except the discovery of the gold and silver mines of the American continent, at the time when the New World first became known to the Old. It is not therefore necessary for us to qualify our remark, that gold and silver are, as a general rule, subject to smaller variations in value than almost any other substances.

*They possess intrinsic value.*

The second of the enumerated qualities which ought to belong to money is, that it should possess an intrinsic value of its own. Nations, even from a remote antiquity, have always placed a great value upon gold and silver. Ancient remains prove that the most costly and highly wrought ornaments have long been manufactured from gold and silver. It is no wonder that ornaments in every

<sup>1</sup> Many statistics relating to the precious metals have been kindly furnished to me by Mr Stewart Pixley.



age should have been made from these metals; their singular brightness gives them beauty, and it is a beauty which is scarcely effaced by time. Iron soon rusts and decays, copper soon becomes corroded, but golden ornaments are dug up from the bogs of Ireland in almost as perfect a state of preservation as when they adorned the primæval inhabitant of that island; and the golden ornaments discovered by Dr Schliemann in Asia Minor although they perhaps belong to a pre-Homeric age perfectly preserve their colour and lustre. The great malleability of gold and silver gives the workman abundant opportunity to display his artistic skill. Moreover, gold and silver have always been sufficiently rare to be esteemed for their scarcity.

The great value possessed by these metals gives them the third essential quality which ought to belong to money; namely, that it should contain great value in a small bulk. It should also be remarked, that gold and silver possess other qualities which make them specially adapted to fulfil the functions of money; these metals are extremely durable, and they can be coined with facility, because they can be divided without any diminution of value into portions containing any assigned quantity or weight.

All these considerations combined cause gold and silver to fulfil the purposes of money far more completely than any other substances. It is true that our own country, and several others, have copper, or rather, bronze, money in addition to gold and silver. Bronze, though very much less valuable than gold or silver, is very convenient for small payments. A piece of gold or silver, which in value would represent a penny, would be almost too small an object to be perceived; and on the other hand, if bronze were used as the only money, any large payment would require a weight of money too great to be carried by an individual.

Although the metallic currency of this country is composed of gold, silver, and bronze money, yet it is found convenient that only one of these substances should be a general standard of value. The substance thus selected is gold. Some countries, however, have adopted silver instead of gold, as a general standard of value. We shall be able easily to explain why, in a wealthy country like

*They have great value in a small bulk.*

*Bronze money.*

*Convenience of taking either gold or silver as the only standard.*

BOOK III.  
CH. V.

*A double  
standard  
is unde-  
sirable,*

*because it  
is affected  
by varia-  
tions in  
the value  
of two  
substances.*

England, gold is a better standard of value than silver. In the first place, gold is the more costly metal of the two, and it therefore contains greater value in proportion to its bulk. Secondly, it has been found by experience that the cost of obtaining gold, and consequently the value of gold, varies less than the value of silver, and sufficient has already been stated to show the importance of possessing, as a standard of value, that substance whose value is most uniform.

It has, however, been frequently proposed to make both gold and silver a general standard of value, and the adoption of such a plan would involve what is technically termed a double standard, or bi-metalism. Various reasons may be stated which will prove that such a double standard is extremely undesirable. We have already pointed out the inconveniences consequent upon any variations in the value of the substance which is adopted as the standard of value. Gold and silver are both liable to fluctuations in value; these metals, for instance, may at any time be cheapened, in consequence of the discovery of productive mines, and on the other hand, the cost of obtaining gold and silver may be increased by the gradual exhaustion of the richest gold and silver mines. If, however, gold and silver are both adopted as a standard of value, the uniformity of this standard will be affected by variations in the value of two substances instead of one. For instance, let it be supposed that the value of silver is reduced five per cent., in consequence of the discovery of some rich silver mines. Let it also be assumed that nothing has occurred to affect the value of gold; consequently, the value of silver, estimated in gold, will be depreciated five per cent.; or, in other words, an ounce of gold will exchange for five per cent. more silver than it did previously. Now a double standard implies that any person who has a payment to make can use his own discretion as to whether he shall pay the amount in gold or silver. If, therefore, the case just supposed should arise, and the value of silver should be depreciated five per cent., it is manifest that every person who had a debt to discharge would take advantage of this depreciation, and all payments would consequently be made in silver instead of in gold. The result would manifestly be, that the amount to be paid would be re-

duced five per cent., and the amount to be received would consequently in every case be diminished by a similar amount. It is evident that this unfortunate and most mischievous disturbance in the terms of monetary contracts is avoided if gold is the only standard of value. The bi-metalists however, in view of the recent depreciation in the value of silver, contend that a considerable influence might be exerted to maintain the value of silver if a general agreement were arrived at to fix by law the relative value of silver and gold; the proportion suggested is usually  $15\frac{1}{2}$  to 1. Although some influence might thus be undoubtedly exerted to arrest the fall in the value of silver, yet we believe it would be as impossible permanently to fix, under all circumstances, the relative value of gold and silver as it would be permanently to fix the relative value of any other two commodities. A law might be passed declaring that a ton of coal should exchange for a sack of wheat; but if through the discovery of richer deposits of coal it cost less to produce a ton of coal than a sack of wheat, a ton of coal would inevitably become less valuable than a sack of wheat. In the same way, if it became less costly to procure  $15\frac{1}{2}$  ounces of silver than it was to procure one ounce of gold the value of silver would not as rapidly decline compared with gold as in case of an ordinary commodity, because all persons being anxious to pay their debts in the metal which it cost least to produce, the demand for silver would be increased, and its decline in value might for a time be arrested. The value of silver and gold, however, must ultimately be regulated in the same way as the value of other commodities, i.e. by their cost of production; and consequently the result of bi-metalism, or the adoption of a double standard, must be to throw an uncertainty over all trading transactions by increasing the probability of debts being liquidated in a depreciated metal.

It must not be imagined that England has a double standard, because silver and copper money form a part of our metallic currency. Our silver and bronze money must be regarded as subsidiary coins, and by a very simple arrangement all the advantages are enjoyed arising from the employment of such coins, without any of the inconveniences which belong to a double standard. It is fixed

*Regulations which preserve a single standard in England.*

BOOK III.  
CH. V.

*Reasons  
for a slight  
depreciation of the  
silver coin-  
age.*

*Regula-  
tions of the  
Mint in  
England*

by law, in this country, that each silver coin should contain a certain quantity of silver, and it is also further enacted that these coins should exchange for, or, in other words, be equivalent in value to, a fixed quantity of gold. Thus a shilling always contains the same quantity of silver, a sovereign always contains the same quantity of gold, and twenty shillings are made equivalent in value to one sovereign. The silver, however, which is contained in twenty shillings is not really equivalent in value to a sovereign, for if the shillings were melted down, the silver which they contain would not purchase so large a quantity of gold as is contained in a sovereign. The Mint, therefore, obtains a profit on the silver which it coins; in fact, our silver coinage may be regarded as a slightly depreciated currency. The Mint, however, is not permitted to issue more than a certain amount of silver coinage, and the reason why a silver coinage is, as it were, slightly depreciated, may be readily explained. For suppose that the weight of gold in a sovereign, and the weight of silver in a shilling, had in the first instance been so arranged that the quantity of silver contained in twenty shillings had been exactly equivalent in value to the gold contained in a sovereign. If this plan had been adopted, any subsequent rise in the value of silver compared with gold would have made it profitable to melt silver coin, and sell it as bullion. The silver coinage of the country would thus be constantly liable to be absorbed, for the purpose of being melted down; therefore, one of two things would occur, either the country would soon lose its silver coinage, or the Mint would have to bear a heavy loss; since, if silver rose in value compared with gold, the Mint would manifestly lose upon all the silver coined, and an unlimited amount might be demanded as long as it continued profitable to melt silver coin.

Such a contingency is, however, obviated by the judicious regulations which control the Mint. For since twenty shillings, although they exchange for a sovereign, do not contain an amount of silver equivalent in value to a sovereign, it is manifestly unprofitable to melt down our silver coinage, and sell it as bullion, unless there should be a very considerable rise in the value of silver compared with gold. The plan adopted by our Mint prevents any

profit being realised by the melting of silver, unless the rise in the value of silver should be very considerable. In the currency of France the amount of silver contained in its silver coinage is much more nearly equivalent in value to the gold coinage for which it exchanges, than is the case in our own currency. For instance, the gold coin termed a 'Napoleon' is said to represent twenty 'francs'; and if four 'five-franc' silver pieces were melted down, the silver which they contain was, at the time the standard was fixed, as nearly as possible equivalent in value to the gold contained in a 'Napoleon.' If therefore anything should occur to increase the value of silver compared with gold, it would become profitable to melt the silver coinage of France and exchange it for gold. The melting of the French silver coinage no doubt took place on a large scale during the time when there was a rise in the value of silver, consequent on the increased demand for silver to be exported to India, chiefly in payment for the greatly increased quantities of cotton that were purchased at very high prices from India during the American civil war. Gold took the place of the silver coinage which was thus melted.

We have described our own silver coinage to be, as it were, a slightly depreciated currency; it might therefore be supposed, that a person would incur a certain risk of loss if he were compelled to accept silver instead of gold in payment of a debt due to him. But in order to obviate such an occurrence, a law has been passed, which enacts that silver shall not be a legal tender for any amount exceeding 40s., and pence are not a legal tender for any amount exceeding 1s. Silver and copper money may, therefore, be regarded as merely subsidiary coins; and thus all the advantages of having convenient coins to discharge the smallest payments are obtained without any of the disadvantages which belong to a double standard.

BOOK III.  
CH. V.

and  
France.

*Reasons  
for limit-  
ing the  
amount of  
a legal  
tender in  
silver.*

## CHAPTER VI.

### ON THE VALUE OF MONEY.

BOOK III.  
CH. VI.

*Distinction between the popular and scientific sense of value of money.*

*The scientific sense of this expression.*

TO the expression 'value of money,' an ambiguity of meaning is attached, which it is necessary clearly to explain. The value of money has a popular signification, which is quite distinct from its scientific meaning. If the 'city article' of any daily newspaper is perused it will be perceived that the value of money is considered to be synonymous with the current rate of interest. Thus the value of money is said to be increasing, when the rate of interest is rising. What is known as the Bank-rate of discount is the measure, at any particular time, of the value of money, where this expression is regarded as signifying the current rate of interest. The Governors and Directors of the Bank of England announce from time to time, usually at their weekly meetings, the terms on which they will discount bills, or, in other words, the interest which must be paid by those who wish temporarily to borrow money from the Bank. In the language therefore of every-day life, the value of money is considered to be represented by the bank rate of discount; the value of money is thus said to rise, as this rate of discount advances, and to fall, as the rate of discount declines.

It may be gathered, from the previous remarks on value and price, that the expression 'value of money' has another and very different meaning. In political economy the greatness or smallness of value is estimated by the power which a commodity has to obtain other commodities in exchange for it. If a sack of wheat will at the present time exchange for a greater quantity of coal, of meat, and of every other commodity than it would have exchanged for a twelvemonth since, it may be said that the value of wheat has risen. If, on the other hand, the wheat exchanged for a less, instead of a greater, quantity of coal,

meat, &c., the value of wheat would be described as having fallen. In a similar manner, if a certain quantity of gold would, at the present time, exchange for a greater quantity of coal, of meat, and of every other commodity, than it would have exchanged for a twelvemonth since, it would be said that the value of gold had risen; on the other hand, it would be affirmed that the value of gold had declined, if the gold exchanged for a less, instead of a greater, quantity of those articles just enumerated. But when it is said that gold exchanges for a greater quantity of any commodity, it is, in fact, asserted that the price of this commodity has fallen; and again, when gold exchanges for a diminished quantity of any commodity, the price of the commodity has increased. Suppose that, a twelvemonth since, the gold contained in two sovereigns would exchange for a sack of wheat, and that now this gold exchanges for two sacks of wheat, it is manifest that the value of gold, estimated in wheat, has increased twofold in the course of a twelvemonth, and consequently the price of wheat during this period has diminished in the same ratio; for wheat has, according to this hypothesis, during the time declined in price from 40*s.* to 20*s.* a sack. When therefore, in political economy, the value of the precious metals, or the value of money is spoken of, the purchasing power of money is referred to; or, in other words, the power which money has to obtain other commodities in exchange for it. It must therefore be distinctly borne in mind, that although men of business consider the value of money to be represented by the rate of interest, yet the signification which is here attached to the expression 'value of money' is such as to describe the value of money to be great when prices are low, and to be small when prices are high.

A few lines above it was remarked, that the value of money is the same as the value of the precious metals of which it is composed. This statement may perhaps require some elucidation. Our readers have no doubt frequently observed, that the Mint price of gold is 3*l.* 17*s.* 10½*d.* per oz. This price is fixed by law, and if an individual takes gold in the form of bullion to the Mint, the authorities are compelled by law to purchase it from him, at the price of 3*l.* 17*s.* 10½*d.* per oz. The price of gold therefore, considered as metal, is by act of parliament fixed at an

*The value of gold rises as prices fall, and falls as prices rise.*

*The price of gold is said to be fixed by law.*

BOOK III.  
CH. VI.

*Erroneous conclusions from this statement.*

*Its real meaning.*

*The value of gold is regulated by the ordinary laws of value which are*

invariable amount. This is not the case with any other metal, for we are all aware that the price of a ton of iron, or a ton of tin, varies greatly from time to time. It will now be explained what is really meant by the price of gold being thus permanently fixed by law.

The fixed price which is given to gold by law is not unfrequently the basis of most erroneous conclusions. Some persons who profess to be authorities on monetary affairs decide, in the most off-hand manner, that the value of gold has not been affected by the recent gold discoveries, grounding this opinion upon the fact that the price of gold has remained unchanged. They say an ounce of gold now realises exactly the same price, namely 3*l.* 17*s.* 10½*d.*, as it realised before the gold discoveries. How then, they ask, can the value of gold have declined, whilst its price remains unaltered? But this constancy in the price of gold only proves that the quantity of gold in a sovereign remains the same. The Mint authorities give 3*l.* 17*s.* 10½*d.* for an ounce of gold, because they know that there is just sufficient gold in an ounce to manufacture three sovereigns, and that portion of a sovereign which is represented by 17*s.* 10½*d.* Since, therefore, the price of gold remains constant, we may speak of gold and bullion as synonymous with the value of gold when converted into coin. The value of gold money, therefore, is regulated by the same laws as those which regulate the value of gold in bullion. In order, therefore, to investigate the value of money, it will only be necessary to apply those principles already enunciated which regulate the value of mineral products.

It is very important to keep most distinctly before the student's mind, that money is composed of substances, the value of which is regulated in the same manner as any other ordinary commodities of trade. The subject of money is rendered confused and difficult, because, in consequence of the phraseology which is often employed, a belief is encouraged that there is something mysterious connected with every economical question relating to money. It will be remembered that in discussing the laws of value and price, commodities were divided into three distinct classes, and these three classes were separated from each other respectively by the following characteristics. In the first class were placed all those articles whose



supply was absolutely limited; in the second class, all produce was included the supply of which would, if increased, involve a greater proportionate expenditure of labour and capital; and, in the third and last class, were enumerated all commodities whose supply might be increased without any practical limit.

The commodities belonging to the second class were described in general terms, as agricultural and mineral produce. The laws of value and price which apply to this class were expounded in Chapter III., Book III. These particular laws therefore will have to be applied in order to establish the principles which regulate the value of money; because, as above remarked, the value of money, and the value of the precious metals of which it is composed, are synonymous expressions. It is hardly necessary to repeat, that the fundamental conclusion established in the chapter just referred to, may be expressed in the following way. If the demand for agricultural or mineral produce renders it necessary so to increase the supply that resort must be had to less productive sources, the price, or, in other words, the value of such produce, will rise, in order to compensate the augmented cost of production. It is true that this law is not brought so distinctly or so immediately into operation, in the case of mineral as in that of agricultural produce, because mining is far more speculative and uncertain than agriculture. This uncertainty is most strikingly apparent in those mines which are worked for the precious metals. Thus the gold-digging of Australia has the character of a lottery. If a man cultivates a plot of ground, he can calculate approximately the average produce it will yield, and the profit that will be left to him; but an Australian gold-digger cannot know beforehand whether the claim, upon which he purchases permission to dig, will prove a complete blank, or will contain nuggets sufficient to make him a rich man in a few days. Although it may appear impracticable to apply the principles of economic science to a branch of industry so speculative and so irregular as gold-digging, yet the Australian diggers are of course influenced, in commencing and continuing gold mining, by the average amount of the gains realised. If the gold-fields become more productive, a greater number of diggers would be

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to agricul-  
tural and  
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produce;*

*although  
the opera-  
tion of the  
law is con-  
cealed by  
the uncer-  
tainty of  
mining  
operations.*

BOOK III.  
CH. VI.

*Causes  
which may  
raise the  
price of  
agricultural  
produce.*

*Do they  
operate in  
the case of  
gold?*

*The two  
uses of  
gold.*

*The gold  
used for  
purposes of  
art*

*does not  
greatly  
vary in  
amount.  
Hence the  
increased  
produce is*

attracted to them, and the same effect would be produced if the gold that was found became more valuable.

Agricultural and mineral produce, consistently with the law above enunciated, becomes more valuable, or in other words, rises in price, as it becomes necessary to increase the supply, in order to meet an increased demand. An increased demand for corn and meat is caused by an increased consumption of food, and we are all aware of the various circumstances which may affect the demand for such minerals as coal, copper, and iron; the demand for these minerals increases with every extension of commerce. Let us, therefore, inquire, Is there any difference in the nature of the causes which affect the demand for the precious metals? Gold (and the same remark applies to silver) is devoted to two distinct purposes.

1st. Gold is employed as an ordinary article of commerce.

2nd. Gold is the substance from which a great portion of the money of most countries is made. By far the larger part of the gold annually produced is devoted to the last of these two purposes.

Gold is, however, employed in a great variety of ways, both in arts and manufactures. But it is difficult even approximately to estimate the quantity which is thus absorbed. From the stamp which is in this country placed upon gold and silver plate, we are enabled to ascertain that the gold plate which is annually manufactured does not in value exceed 40,000*l*. The most competent authorities differ greatly in their calculations with regard to the amount of gold which is used in jewellery, gilding, and in various other ways. Mr Jacob<sup>1</sup> supposed that, fifty years since, an amount of gold equivalent to 2,000,000*l*. was thus annually absorbed. If this estimate was correct, this amount has probably been now trebled. At any rate, the gold which is required for industrial purposes cannot vary greatly from year to year. Hence, if the supply of gold is suddenly doubled or trebled, as it was by the discovery of the rich deposits in Australia and California, it is evident that the large additional supply must be almost entirely

<sup>1</sup> *An Historical Inquiry into the Production and Consumption of the Precious Metals*, by William Jacob, F.R.S. 1831.

*chiefly  
used for  
money.*

converted into gold coinage. It therefore appears, that any increase or decrease in the quantity of gold which is used, is almost solely determined by the amount of gold which is manufactured into money. We must, therefore, in investigating the demand for gold, inquire into the causes which regulate the quantity of money which each country may require. There is little difficulty in explaining the circumstances which regulate the particular demand a country has for the various commodities it consumes. Thus England needs so many sacks of wheat, because there are a certain number of people to be fed. The quantity of cotton goods which the English annually require for their own use varies with the price at which these goods can be sold; each successive reduction in price gives a greater number the power to purchase them, and consequently the demand increases as the price is reduced. It is almost impossible to make even a rough estimate of the amount of gold in circulation in England. All that can be definitely known is the amount that is each year coined at the Mint; this varies greatly from year to year, but for the ten years ending 1881 it averaged about 3,000,000*l.* per annum. This, therefore, may approximately be regarded as the amount of gold which England annually requires to maintain her standard currency. But why has England this particular demand for gold coinage? Why should she not keep in circulation twice as much gold coinage? In giving an answer to these questions, an explanation will be afforded of the principles which regulate the distribution of the precious metals over the various countries of the world.

*What de-  
termines  
the amount  
of money  
employed.*

It would be better in the first place to suppose, for the sake of simplicity, that England has no other money except a metallic coinage. It will afterwards be considered whether the conclusions which are arrived at, on this supposition, have in any way to be modified, because England possesses paper money, such as bank notes, in addition to her coinage.

*Assump-  
tion made  
for sim-  
plicity.*

It will be necessary, as a preliminary inquiry, to investigate the general causes that regulate the quantity of money which a nation requires to keep in circulation. It is almost self-evident that the amount of money which a nation needs must bear some proportion to its wealth. England annually produces and accumulates a much

*General  
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the quan-  
tity of  
money in  
circula-  
tion.*

BOOK III.  
CH. VI.

*It is in  
some pro-  
portion to  
the wealth  
and popu-  
lation of a  
country.*

*Means by  
which the  
quantity of  
money in  
circulation  
is econo-  
mised.*

greater amount of wealth than Ireland. A much larger quantity of commodities will therefore each year be bought and sold for money, in England than in Ireland; in order to carry on this exchange, a greater amount of money will be required in the one country than in the other. The population of England also much exceeds that of Ireland. English labourers are certainly as well remunerated as Irish labourers; wages are generally paid in money, and therefore, as far as the payment of wages is concerned, England will require a much greater amount of money than Ireland. But we need scarcely remark further upon this subject, as it must be evident that the amount of money which a nation requires to carry on all its transactions of buying and selling must bear some proportion to its wealth and population. The vague expression '*some proportion*,' is advisedly used in order to warn the student against the fallacy of supposing that the money which a country keeps in circulation is an accurate measure of its national wealth. The error of such a supposition will be clearly shown, if the mode of conducting the trade and commerce of a country is for one moment considered.

A vast amount of wealth is daily bought and sold without the transfer of any money; in fact, it is not too much to state, that money is rarely employed in any of those large transactions which constitute wholesale trade. The Leeds manufacturer who purchases wool from the stapler pays for it by a cheque, and not by gold or silver coin; and when he sells the cloth which he has manufactured, he does not receive gold or silver from the purchaser, but he is invariably paid by a cheque, or by a bill of exchange. The cheques and bills of exchange which he may have thus issued on his own credit are returned to his bank, and the amount of money which they represent is deducted from the aggregate amount of bills and cheques which he may have received from others, and deposited at the same bank; the balance which is left represents so much wealth which the manufacturer keeps with his banker, either for purposes of convenience or for security. It thus appears, that a manufacturer who may produce in the course of a year 100,000*l.* worth of cloth, may never have in his possession a greater amount of money than is sufficient to pay the weekly wages of his labourers, and to make such

daily payments as are usually discharged by ready money.

As another illustration, it may be stated that an individual whose personal expenditure is 1000*l.* a year, need never have more than a very small amount of money in his possession at any one time. He will discharge all his larger payments by cheques, and he will only require money to pay the wages of his servants, and to meet small current daily expenses, such, for instance, as buying railway tickets, paying cab-fares, &c. It is consequently manifest that the money which any individual has in his possession forms a very insignificant part of his aggregate wealth. Although it is therefore impossible to tell, from any *à priori* reasoning, whether the wealth of a country is fifty times or a hundred times as great as the amount of money which is kept in circulation, yet it may nevertheless with certainty be concluded that, as the wealth and population of a country increase, a greater amount of wealth is bought and sold for money. Such a conclusion is correct, because although a great amount of wealth is exchanged without the transfer of money from one individual to another, yet money is required, and is always used in certain transactions, and these transactions increase both in number and in amount as the wealth and population of a country increase. Thus labourers receive their wages in money; and the amount paid in wages is sure to increase with every increase in the wealth of the country. Again, every individual uses money to discharge most of his smaller payments, such as the purchase of railway-tickets, the hiring of cabs, the settling of hotel-bills, &c. But as the wealth and population of a country increase, more will be spent in railway tickets, cab-fares, hotel-bills, &c., and, consequently, a greater amount of money will be required for these purposes.

In order still further to show the difficulty of assigning any definite proportion between the wealth of a country and the amount of money kept in circulation, it may be mentioned that the amount of money which is required to carry on the trade of a country may partly depend upon the number of times a commodity is bought and sold before it is consumed. To illustrate this, suppose that a sack of flour is bought and sold ten times, to ten

*Hence, though the absolute amount is uncertain, it increases with the increase of wealth and population.*

*The amount of money is also affected by the number of commercial transactions.*

Two principles at which we have arrived.

Application of the principle of demand and supply to the precious metals.

different individuals, before it reaches the baker who bakes it, and that each time the flour is paid for in money. It is manifest that this buying and selling will put as much money in circulation, or, in other words, will require the use of as much coin, as if ten sacks of flour had been at once sold by the miller to the baker.

Sufficient has now been said to establish the two following principles, which regulate the quantity of money required to be kept in circulation:

1st. The amount of money required to be kept in circulation depends upon the amount of wealth which is exchanged for money. Hence, *ceteris paribus*, the amount of money in circulation ought to increase as the population and wealth of a country advance.

2nd. The amount of money required to be kept in circulation also depends upon the number of times commodities are bought and sold for money, before they are consumed.

The question now arises—Do the causes just described as regulating the demand for the precious metals, afford any explanation of the agency by which the demand and the supply of the precious metals tend to an equality?

With regard to any other commodity, there is, as we have shown, no difficulty in explaining this process of equalisation; for the adjustment of the demand to the supply, and *vice versa*, is always effected by a rise or fall in price. An excess in the supply beyond the demand means, that at the price at which any particular article of commerce is offered for sale, there are not sufficient purchasers to take the whole quantity which is offered. But this apparent superfluity is, after all, a mere question of price, for if the price be lowered, new purchasers will at once come into the market, and there will cease to be an excess in the supply. As soon as the price is sufficiently reduced there will be purchasers for the whole of the commodity which is offered for sale. The demand for a commodity always varies with its cheapness, although the ratio of this variation cannot be numerically defined. It is not only different for different commodities, but it also alters with every change in the economic condition of the country. As an example, Mr Gladstone was confident in his belief that a reduction of one hundred per cent.

in the price of inferior French clarets would cause these wines to be purchased by classes of society in this country who never before purchased them, and that therefore the consumption of this wine would increase much more than one hundred per cent.; and this belief has been fully justified by events. As another example, it is perhaps not too much to say that at the present day even the poorest are generally able to obtain as much bread as they require, and therefore it is certain that the demand for bread would not be doubled, or, in other words, that twice as much bread would not be consumed, if the price of bread were reduced one half. But although we cannot beforehand define the exact point to which the price of any commodity must either rise or fall to adjust the demand to the supply, yet there can be no doubt as to the agency by which this adjustment is effected: when the demand exceeds the supply the price will rise, and thus diminish the demand; when, on the other hand, the supply exceeds the demand, the price will fall, and thus increase the demand. But it would be naturally asked, Can the demand and supply of the precious metals be adjusted in the same manner? This is a difficulty which must be clearly explained.

It has been frequently stated that the price of any commodity is an expression synonymous with its value estimated in gold, or in any other substance which is selected as money. It is, therefore, an evident contradiction to speak of the demand and supply of gold being adjusted by a rise and fall in its price. The price of gold is, in fact, a meaningless expression, since, according to the signification which we have just attached to the word price, the price of gold means the value of gold estimated in gold, and this is a phrase which can have no meaning. Let, therefore, the expression 'value of gold' be substituted for 'price of gold,' and this substitution will enable us to escape from our apparent difficulty. The value of gold accurately varies in the inverse ratio of the price of commodities. If the prices of all commodities rise one hundred per cent., the value of gold falls one half, for the same quantity of gold will exchange for or purchase only half as much of each commodity. In the absence, therefore, of any counteracting circumstances, if the prices of all

*We must  
substitute  
value for  
price.*

BOOK III.  
CH. VI.

*Demand  
for gold  
varies  
directly  
with  
prices.*

*Summary  
of the pro-  
cess*

*by which  
the demand  
for gold is  
equalised  
to the  
supply.*

*If the  
wealth of  
England  
were to in-  
crease,  
either the  
amount of  
money  
must in-*

commodities rise one hundred per cent., twice as much gold or silver is required each time any commodity is purchased; and there must consequently be twice as much gold and silver in the country circulating in the form of money. The following principle can therefore be enunciated:—The amount of gold actually in circulation varies, *cæteris paribus*, in the direct ratio of the price of commodities. If the prices of all commodities rise, each purchase requires an increased amount of money. Hence more money is kept in circulation, or, in other words, the quantity of metal employed is increased.

The following is a summary of the somewhat complicated process by which the quantity of gold and silver in circulation is regulated.

The greater is the quantity of coin in circulation, the higher, *cæteris paribus*, will be the price of commodities. But as the price of commodities rises, the value of gold, or the value of any other substance out of which money is made, declines. If the value of gold diminishes, the profits of the miners who produce this gold must diminish, and when the profits are thus reduced many will be discouraged from gold mining, and the supply of gold will consequently be also diminished.

We shall now be able readily to explain the means by which the demand for gold is equalised to its supply. It is necessary in the first place to inquire what is meant by a country's demand for the precious metals; in order to simplify this inquiry, let it be supposed that such a metal as gold is employed for no other purpose except to be coined into money. This supposition will much simplify the investigation, and will not in any sensible degree affect the correctness of the ultimate conclusions; for, as previously stated, the quantity of gold used for the ordinary purposes of art and manufacture is subject to very small variations from year to year.

According to this assumption it will be correct to say that the amount of gold coinage which a country requires determines its demand for gold. It has already been remarked in this chapter, that the amount of coinage which a country keeps in circulation is primarily regulated by the amount of wealth which is exchanged for money, and by the number of times which any of the



commodities that compose this wealth are bought and sold. If, in the absence of any counteracting circumstances, England's wealth were doubled, and if in every trading transaction the amount of wealth bought and sold were doubled, England would require twice as much money in order to effect her transactions of buying and selling. But in what sense is an increased amount of money necessary? What would be the consequence if a larger amount of money were not brought into circulation? These questions will be answered by showing, in the first place, that the increased quantity of money is required in order to preserve general prices unchanged; and that, secondly, if the money were not forthcoming, the prices of all commodities would decline, or, in other words, the value of gold would be increased.

An investigation of the following hypothetical case will substantiate these propositions. Let it be supposed that the material wants of England's entire population are suddenly doubled, and that an adequate supply of commodities is spontaneously provided to meet this increased demand. According to this hypothesis the supply of every commodity except money would be augmented; each person who before purchased one loaf of bread, one pound of meat, and one coat, would now purchase two loaves, two pounds of meat, and two coats. But since he possesses no more money than he did when his material wants were satisfied with only half the amount of commodities he now requires, he and every other individual can only now give the same quantity of money for two loaves, two pounds of meat, and two coats, as they before gave for one loaf, one pound of meat, and one coat. If, however, this be the case, bread, meat, clothes, and every other article must have declined one half in price. It is therefore evident that, in this imaginary case, where circumstances have occurred which doubled the demand for money without its supply being increased, the price of all commodities will be diminished one half, or, in other words, the value of gold will be doubled; buying and selling, however, will not be interfered with, the people will not be prevented satisfying their demand for commodities, nor will less material wealth be produced and consumed.

Again, it would be said that a nation requires, and

BOOK III.  
CH. VI.

*crease or  
the value  
of gold  
must in-  
crease.*

*Hypotheti-  
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investi-  
gated.*

*If the de-  
mand for  
money in-  
creases  
faster than  
the supply,  
prices fall.*

*All varia-*

BOOK III.  
CH. VI.

tions in  
price are  
undesira-  
ble.

therefore has a demand for, a greater quantity of coinage, if her population and wealth should increase; but, in this case, the greater quantity of coinage is required in order to prevent prices from declining, for if the greater quantity were not forthcoming, trade would not be prevented from developing, the production of wealth would not be stopped, but the prices of all commodities would inevitably decline. This general decline in price is quite as undesirable as a general rise in price, for if prices either suddenly rise or suddenly fall the conditions of every monetary contract are immediately altered; the annuitant, for instance, who is in the receipt of his 100*l.* a year, may suddenly find, if there is a general rise in the price of commodities, that his annual income is only one half as valuable; or, in other words, will only purchase him one half as much of the necessaries and enjoyments of life. On the other hand, if prices suddenly fall, the burden of any fixed money payment will be at once increased; thus the farmer who is bound to pay 500*l.* a year as rent to his landlord might be seriously impoverished, because this 500*l.* would represent twice as much agricultural produce. It is, therefore, most desirable that the value of gold should remain as constant as possible. Hence, if an increase of population and wealth causes a country to require a greater amount of coinage; the demand for gold and silver which is thus produced represents a real want.

The average price  
of commodities is  
determined  
by the cost  
of production of  
gold.

Although it is clearly important that prices should not vary, the question now arises, Why should prices happen to be what they are at any particular time? Why, on the one hand, should there not have been a smaller production of gold, and lower prices—or why, on the other hand, should there not be a greater production of gold, and higher prices? The gold mines of the world have never in one year yielded more than a small portion of what they might have yielded if more labour and capital had been employed upon them. But this increased amount of labour and capital has not been embarked in gold mining, precisely for the same reason that a greater quantity of labour and capital has not been employed upon the mines of Cornwall. If the price of copper were greatly increased, then copper mining would become a more profitable speculation. There would be a greater inducement offered to

extend mining operations, and an increased amount of copper ore would inevitably be raised. If, on the other hand, the value of copper were diminished, the profits of copper mining would also be diminished, and a smaller quantity of copper ore would be annually raised. If, in the same way, the value of gold were to increase, or, in other words, if general prices were to decline, an increased quantity of gold would be annually produced. If, on the contrary, the value of gold were to fall, or general prices to rise, the profits of gold mining would be decreased, and the annual yield of gold would diminish, because with the diminution in the profits of gold mining there would be less inducement to employ labour and capital upon gold digging. An increase in the demand for gold is evidenced by a fall in the price of commodities; but, as we have just stated, such a fall in general prices stimulates an increase in the annual yield of gold, and in this manner an agency is constantly brought into operation to equalise the supply of gold to the demand, or, in other words, to preserve an uniformity of general prices. The process is exactly analogous to the equalisation of the supply to the demand in the case of every other commodity. If the demand for cotton goods increases, the price or value of cotton goods will rise, but a rise in the price of cotton goods causes their supply to be also increased. The reason, therefore, why there is an apparent exception in the case of gold arises from this circumstance. An active demand for any other commodity is characterised by a rise in its price or value. The same holds true with regard to gold, but since the price of gold is a meaningless expression, it is necessary to say that an increased demand for gold signifies a rise in its value; a rise in the value of gold can, however, only be shown by a fall in general prices.

The leading propositions established in this chapter are briefly these:—If the demand for gold increases without the sources of its supply becoming more productive, the increased quantity of gold required will be obtained at a greater cost, and the result must be that the value of gold will rise. An increase in the value of gold must be shown by a fall in general prices. If, on the other hand, rich gold mines should be discovered, and the cost of ob-

*The process which equalises the supply and demand of gold is not peculiar to itself, if we substitute value for price.*

*Recapitulation.*

taining gold should be lessened, the supply of gold will be increased, and its value must inevitably decline, unless circumstances should simultaneously happen which should cause various countries to require a greater amount of gold money. If such circumstances should occur, an increase in the demand for gold might be created, and the whole of the additional gold yielded might be absorbed without the value of this metal being decreased. If, on the other hand, no circumstances should occur to increase the demand for gold, the increase in the supply of gold must cause a decrease in its value. But a diminution in the value of gold, or, in other words, a rise in general prices, creates an increased employment for gold, because if the price of a commodity is increased, a greater amount of money is required to be used each time a commodity is bought and sold. In this way the supply of gold will be always equalised to the demand, because, as the value of gold becomes depreciated by an increased supply, the demand for gold will also be increased in exact proportion to the amount of this depreciation. Thus, if the value of gold is decreased one half, or, in other words, general prices are doubled, the quantity of gold money required will also be doubled. This process of equalisation is moreover assisted by the two following circumstances:

*Circumstances which tend to equalise the demand to the supply of gold.*

In the first place, as the value of gold diminishes, a greater quantity of it will be used for purposes of art and manufacture, and in this way a portion of the additional supply of gold may be absorbed.

In the second place, a decrease in the value of gold exerts an influence to limit the supply, because gold mining will be rendered less profitable, and therefore the least productive mines will gradually cease to be worked. It will be shown, in a future chapter, that the principles just enunciated render us much assistance in determining the effects which have been produced by the gold discoveries in Australia and California.

We have, in this chapter, explained the manner in which the demand for gold is equalised to its supply in the case of the countries which produce it; but other countries, such as our own, yield no gold; it is obtained entirely as an imported commodity. It will be therefore necessary

to call to our aid the principles of international trade, in order to explain how the quantity of gold is regulated which a country like England annually retains for the purposes of coinage. The subject of international trade will therefore be considered in the next chapter.

BOOK III.  
CH. VI.

## CHAPTER VII.

### FOREIGN COMMERCE OR INTERNATIONAL TRADE.

BOOK III.  
CH. VII.

*Advantages of international trade.*

*The mutual advantage gained by France selling wheat to England for hardware.*

THE advantages which a country derives from foreign commerce must be patent to the most casual observer. By foreign commerce a country obtains various commodities which she cannot produce herself; her people do not perhaps possess the requisite skill, or her climate and other circumstances of her physical condition are unsuited to the growth and manufacture of the products in question. Foreign commerce therefore extends the range of man's enjoyments; he is not confined to the products of his own soil, but commodities are brought from every region of the world to minister to his wants. Foreign commerce however confers another advantage which is equally important; a single example will show how greatly foreign trade stimulates the production of wealth by increasing the efficiency of labour and capital.

If the economic condition of various countries is considered it will at once be perceived that there is the greatest possible variation in the relative advantages which they respectively possess for the production of various commodities. For instance, the mixture of iron-stone and coal, often in alternate seams, gives England exceptional advantages in the manufacture of iron, and the production of iron can be greatly increased without any material advance in its price. The area of land in England which is suitable for the growth of wheat is so limited that it would probably be impossible to obtain from her own soil sufficient wheat for her population, and even if it were possible it would become necessary to resort to such unproductive land that wheat would advance almost to a famine price. It is therefore obviously advantageous for England to obtain a

portion of her supply of wheat in exchange for iron. Other countries, such as the United States, Canada and Australia, possessing almost unlimited tracts of fertile land, can readily supply England with the additional wheat she may require.

As the advantages which a country derives from foreign commerce admit of being thus easily explained, it would be instructive, before investigating the subject further, to inquire how it has come to pass that the real character of the benefits conferred by foreign trade has often been misunderstood. It is scarcely necessary to remark that until a time which was marked by the publication of Adam Smith's *Wealth of Nations* the doctrines of the mercantile system obtained almost universal acceptance. It was supposed that the gain which any country secured from foreign trade was to be estimated by the amount of money it brought into the country: and consequently the commercial policy of every country was dominated by the desire, as far as possible, to encourage exports and to discourage imports; the greater the amount of goods that were exported, the greater would be the amount of money to be received; and the larger the imports, the more money would have to be sent abroad to pay for them. If therefore exports exceeded imports, money would have to be received, and the balance of trade was said to be favourable; whilst if imports exceeded exports the balance was regarded as unfavourable. Various expedients were from time to time adopted to secure a favourable balance of trade. Exports were encouraged by the granting of bounties, and imports were restrained by the imposition of duties and in various other ways. Although the system of bounties has long since been given up in England, yet formerly foreign trade was sought to be controlled quite as much by bounties on exports as by restraints on imports. Adam Smith says<sup>1</sup>: "Bounties upon exportation are, in Great Britain, frequently petitioned for, and sometimes granted to the produce of particular branches of domestic industry. By means of them our merchants and manufacturers, it is pretended, will be enabled to sell their goods as cheap or cheaper than their rivals in the foreign market. A greater quantity, it is said, will thus be exported, and the balance of trade consequently turned more in favour of

*The fallacies of the Mercantile system.*

<sup>1</sup> *Wealth of Nations*, Book iv. chap. v.

our own country." Although there can be no doubt the granting of bounties on exports and the impeding of imports by the imposition of duties were in the first instance prompted by the desire to secure a favourable balance of trade, yet the system of protection which until a comparatively recent period controlled the commerce of our own country, and still controls the commerce of most other countries, may be regarded as a natural development of the same policy. So long as foreign commerce is considered to involve an antagonism between countries instead of an interchange of commodities which is mutually advantageous, it will inevitably be concluded that the interests of the home trader will be promoted at the expense of his foreign rival both by bounties on exports and duties on imports. It is argued that the home trader who enjoys a bounty is placed in a better position to undersell his foreign competitors in their own markets, whilst at the same time he can be effectually protected by sufficiently high import duties against their competition in his own market. England and Holland are almost the only countries which have adopted a complete free trade policy; and as in many countries, including even our own colonies, protection holds an extremely strong position, it becomes of much practical importance to consider the advantages conferred upon a country by foreign commerce. In order to simplify the case as much as possible, let it be in the first instance assumed that the foreign trade between England and France consists in the exchange of two commodities only—iron and wheat—that iron is sent from England in exchange for wheat from France. Let it be supposed that in France the production of a ton of iron requires as much labour and capital as the production of twenty sacks of wheat; but that in England the same quantity of iron requires as much labour and capital as would produce ten sacks of wheat; then iron, estimated in wheat, is twice as valuable in France as in England. England therefore might say to France—It will be greatly to our mutual advantage if you will let me supply you with iron, and receive from you wheat in exchange for it. For suppose you give me fifteen sacks of wheat for each ton of iron that I send you, then we shall each gain five sacks of wheat on every transaction; if you manufacture the ton of iron yourself, it would cost



you as much as twenty sacks of wheat, whereas you only have to give me fifteen sacks. On the other hand, I should only be able to get ten sacks of wheat for a ton of iron, if I sold the iron in my own country. We therefore each of us obtain a profit upon the transaction, which is represented in value by five sacks of wheat. This is a great gain, and a great saving of wealth, for the gain is made at no one's expense.

In order that two countries should enjoy those striking advantages which have just been pointed out as resulting from foreign commerce, it is not necessary that of the two commodities exchanged the first should be dearer in the one country than in the other, and that the second commodity should be cheaper; all that is necessary is that in the two countries there should be a difference in the *relative* value of the commodities which are exchanged. It is very important to bear this remark in mind; its truth may be illustrated by an example. Suppose the cost price of a ton of iron produced in France is 30*l.*, and that the price of a sack of wheat is 30*s.*; a ton of iron would therefore exchange in France for twenty sacks of wheat. But, in England, a ton of iron is supposed to exchange for only ten sacks of wheat. Let it therefore be considered that a ton of iron in England is worth 10*l.*, and that a sack of wheat is worth 1*l.* Wheat and iron are therefore both cheaper in England than in France, but iron is three times as dear in France as in England, and wheat is only one and a half times as dear. There is therefore a difference in the *relative* value of wheat and iron in the two countries, and hence a foreign trade in these two commodities can be carried on with great advantage to the two countries concerned. For if England gives France a ton of iron in exchange for fifteen sacks of wheat, each country will upon the transaction obtain a profit which in value is to be estimated at five sacks of wheat. But all the gain which arises from this exchange would be at once lost if there were no difference in the relative value of wheat and iron in the two countries, for if wheat as well as iron were three times as dear in France as in England, it would be impossible for England or France to realise any profit by exchanging iron for wheat; the transaction would involve heavy loss to each party, because there would be no profit to counterbalance the expense in-

*This advantage may be gained whenever the prices of two articles bear a different proportion to each other in different countries.*

BOOK III.  
CH. VII.*Cost of  
carriage.**If com-  
merce be  
supposed  
restricted  
to two  
articles**what would  
be the  
terms of  
exchange?*

volved in exporting the commodities from one country to the other.

In explaining the profit realised by two countries from foreign commerce, we omitted to mention the cost of carrying these commodities from one country to the other. This cost of carriage has, of course, to be deducted when estimating the aggregate gain resulting from foreign trade. This item must not only be considered, but it will be also necessary to point out the causes which fix the exact proportion of the whole cost of carriage which is borne by each of the two countries. It will, however, much simplify our investigations if for the present the consideration of the cost of carriage is omitted. In order still more to simplify the subject, it may, in the first instance, be assumed that England's foreign commerce is restricted to one country, and that her exports to this country, and her imports from it, are confined to two commodities. Reverting to our former example, let it be supposed that England's foreign commerce consists entirely in sending iron to France, and receiving wheat in exchange for it. As yet it has only been proved that England and France would both realise considerable profit if there was a difference in the relative value of wheat and iron in the two countries. It has been shown above, that upon every ton of iron exported, England and France might both obtain a profit equal in value to five sacks of wheat, if a ton of iron were worth twenty sacks of wheat in France and ten sacks in England: this particular profit would manifestly be realised if fifteen sacks of wheat were given for one ton of iron. But the question now arises—Is it necessary that these, and no others, should be the terms of the bargain? Why should not twelve sacks of wheat instead of fifteen sacks be given for each ton of iron? The trade would still be highly remunerative to each country, although the profit resulting from the transaction would now be unequally instead of equally distributed, for France would obtain a profit represented by eight sacks of wheat upon each ton of iron exported from England, whereas the profit realised by England upon the same transaction would be no more than two sacks of wheat. The terms of such a bargain are certainly not regulated by blind chance; the buyer and seller in the transactions of international trade are shrewd

merchants, whose business it is to buy as cheaply as they can and to sell as dearly. We will therefore proceed to describe the manner in which the bargain is ultimately adjusted.

If England could receive fifteen sacks of wheat for every ton of iron she exported to France, the quantity of iron which she would be willing to export upon these terms might be greatly in excess of the quantity of iron which France requires. If this be so, then the supply of iron to France would manifestly be in excess of the demand; it will therefore be necessary to consider how the supply may be equalised to the demand. In making this investigation it will be shown that the process by which this equalisation is effected exactly resembles that process of equalisation which takes place in the case of commodities which are bought and sold in the country where they are produced.

When the supply of any commodity is in excess of the demand, the commodity must be cheapened in order to equalise the supply to the demand; by cheapening the commodity its supply will be diminished, and the demand for it will be increased. England, therefore, will be compelled to offer her iron to France on more favourable terms, if the quantity of iron which England exports is more than sufficient to meet the demand which France has for iron. Let it therefore be assumed that France only gives England fourteen sacks of wheat instead of fifteen for each ton of iron. This change in the terms of the bargain will manifestly exert an influence in two distinct ways towards equalising the demand for iron in France to the supply which is imported from England.

In the first place, the profit obtained upon the transaction by the English manufacturer of iron will be diminished, and therefore he will be induced to export a less quantity of iron to France than he did when fifteen sacks of wheat were given for each ton of iron. The supply of iron to France will in this manner be decreased. The demand for iron in France will, at the same time, be increased; because if any commodity is cheaper the demand for it always becomes greater. Iron must manifestly be cheapened in France if fourteen sacks of wheat instead of fifteen are given for each ton of this metal which is im-

*The process by which the equalisation of supply and demand is effected in this case, is similar to that which takes place in home trade.*

*An increased demand of one country for the produce of the other makes the terms less favourable to it;*

*or, the profit of each country is in an inverse ratio to its demand for the imported goods.*

ported. If, however, this alteration in the terms of the bargain is not sufficient to equalise the demand to the supply, and if the quantity of iron which England is willing to export still exceeds the quantity which France requires, the terms of the bargain must be further altered in the same direction. It may, therefore, be assumed that England will be compelled to offer France iron at the rate of thirteen instead of fourteen sacks of wheat for each ton of metal exported. Let it, therefore, be supposed that these are the terms upon which the international trade is finally adjusted; thirteen sacks of wheat being exchanged for one ton of iron. Some important propositions may be deduced from the description which has just been given of the internal mechanism which regulates the bargains of international trade.

As an example, the reader will observe that the whole profit which accrues upon each transaction of international commerce is shared, between the two trading countries, in the inverse ratio of the demand which one country has for the commodity which it imports from the other. Thus, in the case just considered, the partition of the profit between France and England is made according to the following ratio:—England upon each ton of iron exported obtains a profit equal in value to three sacks of wheat, whereas the profit secured by France is seven sacks of wheat, or, in other words, more than twice as much as that which falls to the lot of England. But if the demand for iron in France should increase, France would obtain a smaller share of the profit, and England of course a greater share. This proposition, after what has been stated, can scarcely need any explanation. When thirteen sacks of wheat are given for one ton of iron, there is a certain definite quantity of iron which England is willing to export upon these terms. But if this particular quantity of iron no longer satisfies the demand of France, then France, in order to induce England to send her more iron, must offer higher terms for this iron; and thus France may, in consequence of her increased demand for iron, be compelled to give fourteen sacks of wheat instead of thirteen for each ton of iron. The whole profit of the transaction will then be divided between France and England in the ratio of six to four, instead of in the ratio of seven to three.

BOOK III.  
CH. VII.

*Effects of lowering the cost of production of one of the commodities exchanged.*

*It does not follow that the country in which the production is cheapened will gain all the advantage.*

Let us next inquire what will be the effect upon the ratio in which the aggregate profits are divided if the production of one of the commodities interchanged is cheapened in England, but not in France. Suppose that in England some rich deposits of iron ore are discovered, or that, in the process of smelting, some improvements are introduced which France has not either the appliances or the enterprise to adopt. The cost of producing iron might in this manner be so materially diminished in England that a ton of iron will become equivalent in value to eight sacks of wheat instead of ten, while at the same time there is no diminution in the cost of producing iron in France; and therefore in that country a ton of iron, if no supplies were obtained from other countries, would be still equivalent in value to twenty sacks of wheat. The whole profit which will now result from the interchange of iron for wheat between England and France will be represented by twelve sacks of wheat, instead of by ten. The question therefore arises, Will England be able to appropriate to herself the whole of the additional profit? That she will be able to do so may at first sight seem probable, because the improvements or discoveries which have cheapened the cost of iron are due entirely to her, and have as yet exerted no effect in diminishing the cost of producing iron in France. England has previously been obtaining from France thirteen sacks of wheat for each ton of iron. If France were still to carry on the commerce upon these terms, now that a ton of iron is only worth eight sacks of wheat in England, the profit obtained by England would be increased from three sacks of wheat to five sacks of wheat; she would thus appropriate to herself the whole advantage arising from the diminished cost of iron; France still having to give for iron exactly what she did before. But the competition of the English ironmasters will inevitably prevent this taking place: directly they find that the profits obtained upon the export of iron to France are so greatly increased, they will be anxious to send a much larger quantity of iron to France; iron will, in fact, be forced upon the French markets, greatly in excess of the quantity required. This is sure to be the case, since before increased exports of iron were encouraged by high profits, the demand for iron in France was exactly equalised to its

supply. The terms upon which the trade between France and England is conducted must become less favourable to the latter country, in order to induce England to export less iron, and also to induce France to purchase a greater quantity of the iron imported from England. In this manner England may be compelled to accept only eleven, or even ten sacks of wheat, for each ton of iron. We have here simply to repeat, what was stated in the case above analysed, that the terms upon which the bargain is finally adjusted depend entirely upon the equalisation of the demand to the supply. If, when a ton of iron is exchanged for eleven sacks of wheat, the quantity of iron sent to France is in excess of that which she requires, the terms of the exchange must be again adjusted; it may for instance happen that when only ten sacks of wheat are given for one ton of iron, the demand for iron in France will be exactly equal to the supply: if this be so, then ten sacks of wheat for one ton of iron will be the terms upon which the exchange is finally adjusted. But if these were the terms upon which the bargain was ultimately arranged, it is manifest that France must obtain the greater portion of the profit which arises from the diminished cost of producing iron, even although this diminution in the cost of producing iron has been confined entirely to England. If ten sacks of wheat are given for a ton of iron, the profit secured by France upon each ton of iron she imports will be an equivalent in value to ten sacks of wheat, whereas the profit secured by England will be only two sacks of wheat. This is a smaller profit than she obtained before the cost of producing the iron she exports was reduced. France, therefore, has been able to appropriate the whole of the additional profit. This may appear a paradoxical result, but it is one which very possibly may really occur.

Allusion has so frequently been made in this chapter to the profit arising from international trade that the question will be naturally asked—Into whose possession does this profit ultimately fall? When England obtains a profit of five sacks of wheat upon each ton of iron she exports, is this profit solely enjoyed by the English merchant, and the English ironmaster, or is it distributed amongst the whole nation? In answering this question it must be borne in mind that the profit arising from international

*The benefit arising from international trade is distributed amongst the whole people.*

trade is due to a saving of labour and capital; this profit cannot be permanently retained by the merchants, or by those who produce the commodity exported; because, as has been so frequently remarked, the competition of capital prevents exceptionally high profits being permanently secured in any branch of industry. It would therefore appear that the advantages which a country derives from foreign commerce will be distributed amongst the consumers of the imported commodity. It therefore becomes necessary to consider how this distribution of gain amongst the consumers of imported commodities is effected.

It has been supposed that in France a ton of iron costs as much to produce as twenty sacks of wheat, whereas in England the production of a ton of iron only costs as much as ten sacks of wheat. It is therefore evident, supposing there were no foreign commerce between the two countries, that the price of iron would be 20*l.* a ton in France, when the price of wheat there was 1*l.* per sack, and that in England the price of a ton of iron would be 15*l.*, when the price of wheat in England was 30*s.* a sack. What effect would be produced upon the price of these commodities by a commerce between the two countries? In order to investigate the question which has just been put, let it be supposed that France gives England fifteen sacks of wheat for each ton of iron; a ton of iron must now, therefore, in each country, be worth as much as fifteen sacks of wheat. In France a ton of iron cannot any longer be worth more than fifteen sacks of wheat, because in exchange for this quantity of wheat England is willing to give a ton of iron. Again, ten sacks of wheat will no longer be worth as much as one ton of iron in England, because, by sending iron to France, one ton of iron will procure fifteen sacks of wheat. The value of iron, therefore, if estimated in wheat, has risen in England, and declined in France; or, considering the question from a different point of view, it may be said that the value of wheat, estimated in iron, has fallen in England; whereas, on the other hand, it has risen in France. Foreign commerce has therefore, in each country, produced a change in the relative value of these two commodities. The price of a ton of iron will now, in France, be no longer equivalent in price to twenty sacks of wheat. In the same

*Process by  
which this  
is effected.*

BOOK III.  
CH. VII.

*The price  
of the im-  
ported  
commodity  
is lowered  
in the im-  
porting  
country.*

way the price of a ton of iron will, in England, be no longer equivalent to the price of ten sacks of wheat; for since in each country a ton of iron now exchanges for fifteen sacks of wheat, the price of a ton of iron must in each country be equivalent in price to fifteen sacks of wheat. If, therefore, in England, a ton of iron still continues to sell for 10*l.*, fifteen sacks of wheat will only sell for 10*l.*; or, in other words, wheat will be 13*s.* 4*d.* a sack. If, in the same manner, wheat continues to be 1*l.* per sack in France, a ton of iron will there sell for 15*l.*; there will therefore have been a reduction of twenty-five per cent. in its price, for before, a ton of iron sold for 20*l.* Hence it appears that the effect of foreign commerce between two countries is to reduce the price, in each country, of the commodity which is imported; wheat will be reduced in price in England, and iron will be reduced in price in France, and the persons who consume wheat in England, and those who use iron in France, will consequently have distributed amongst them the gain which results from international trade. In fact, the main effect of foreign commerce is to increase the efficiency of labour and capital; foreign commerce causes labour and capital to be applied in such a manner as will make them most productive of wealth. According to our assumption, England possesses peculiar advantages for the manufacture of iron, whereas France is much better adapted to grow wheat than to produce iron. Each country must therefore be mutually benefited, if England produces iron for France, and France grows wheat for England.

*The price  
of the ex-  
ported  
commodity  
is general-  
ly affected  
in the  
country  
exporting  
it.*

We do not pretend to say that the figures above given represent with numerical accuracy the reduction in the price of iron and wheat which would actually occur. According to the hypothesis just made, wheat will in England be reduced in price to 13*s.* 4*d.* a sack, and iron will in France be reduced to £15 a ton, if it is supposed that the price of iron in England, and the price of wheat in France, are unaffected by the international trade between these two countries. But it will be shown that this cannot, as a general rule, be the case. Let it, for instance, be assumed that 500,000 tons of iron is the quantity which England each year requires for her own use, and that she annually exports to France 100,000 tons; the



question will then be suggested:—Will the price of iron be raised in consequence of the additional 100,000 tons of iron which have annually to be produced for export to France? If no rise of price results, the price of iron will be unaffected by foreign trade. But it was shown, in Chapter III. Book III., that the price of minerals is regulated by laws analogous to those which control the price of agricultural produce. Consequently, in the absence of any counteracting circumstances, the price of iron must rise if its supply has to be increased, because less productive veins of iron-stone will have to be worked in order to obtain the additional 100,000 tons of iron annually exported to France. These considerations show that the price of iron may very possibly in England be advanced from 10*l.* to 12*l.* a ton. If this be so, the importation of wheat from France will not cause so great a reduction in its price as that above supposed, for although England may still obtain fifteen sacks of wheat for one ton of iron, yet this ton of iron is now worth 12*l.*; the fifteen sacks of wheat will therefore be worth 12*l.*; or, in other words, wheat will in England be 16*s.* instead of 13*s.* 4*d.*, a sack.

We trust that it has now been made evident that it is not the traders, or merchants, but the consumers of imported commodities who derive the greatest benefit from foreign commerce. A cursory view, however, of the subject may perhaps induce some to believe that the advantage resulting from foreign commerce is in a great degree counteracted by the pecuniary loss which is inflicted upon the home-producers of those foreign commodities which are reduced in price by foreign importation. For instance, with reference to the trade in wheat and iron supposed to exist between France and England, it may be said, that, though there can be no doubt as to the benefit conferred upon the English nation by a reduction in the price of wheat from 30*s.* to 16*s.* a sack, it should on the other hand not be forgotten that this reduction in price must inflict serious loss upon the English growers of wheat; consequently the community is benefited at the expense of one class of traders. This opinion, in fact, forms the ground-work upon which are based many of the fallacious arguments of the advocates of protection. We will there-

*It may be supposed that the benefits of international trade are at the cost of one class of traders.*

BOOK III.  
CH. VII.

*Proof that  
this cannot  
be the case.*

fore proceed to explain the manner in which the position of the home producer of a commodity is affected when the price of the commodity is reduced by foreign importation.

In the example above investigated, the hypothesis has been made, that 100,000 tons of iron are each year sent to France, for which England obtains in exchange 1,500,000 sacks of wheat. England, now that she imports wheat, will manifestly have to raise from her own soil a diminished quantity of wheat. Her own yield of wheat might be annually diminished by 1,500,000 sacks. The area of her soil which is devoted to the growth of wheat will therefore be lessened, and wheat will no longer be grown upon that land which is least fertile; or, in other words, the least adapted to the growth of wheat. The margin of cultivation will therefore ascend, and rents must be reduced. The farmer will thus ultimately be compensated for the reduction in the price of wheat; the landlords will suffer a loss from this diminution in the value of their land; the farmers may also be temporary losers; some farmers, for instance, may be bound by long leases, and rents may not be immediately adjusted consistently with the reduction which is supposed to have taken place in the price of wheat. The home-trader therefore may no doubt temporarily suffer loss from the competition of foreign traders in the same branch of industry; but it must be remembered that everything will again be adjusted, because, as has been so frequently remarked, the competition of capital is constantly exerting a tendency to smoothe down any temporary inequality in the profits of different trades. Even if it is admitted that any particular class of traders are injured by foreign importations, the loss of profit which they thus suffer cannot justly be regarded as a confiscation of their private property, against which the Government is bound to protect them. There can be no right to which a nation has a juster claim, than that every individual of the community should be freely permitted to obtain commodities where he can buy them on the cheapest terms, and to sell them where he can realise the highest price.

*Effects of  
an inter-  
national  
trade upon*

The trade between England and France—which, as an illustration, has already been analysed—suggests one or two other points for consideration, which must be ex-

amined in order to establish a complete theory of international trade. Summarising the hypothetical result at which we have arrived, it will be remembered that 100,000 tons of iron are exported from England, and that in exchange for this iron, 1,500,000 sacks of wheat are imported into England. It has also been supposed that iron has been raised in price in England from 10*l.* to 12*l.* a ton, in consequence of this foreign demand; hence it has been also concluded, that since fifteen sacks of wheat are given in exchange for one ton of iron, fifteen sacks of wheat will be in England of the same value as one ton of iron. But if this be so, the price of wheat must manifestly be in England 16*s.* a sack, because the price of iron is considered to be 12*l.* a ton. It has been assumed that, if there were no foreign trade, the price of wheat in England would be 30*s.* a sack; let it also be supposed that the English nation annually consumes 6,000,000 sacks of wheat. Consequently English farmers can grow 6,000,000 sacks of wheat, and obtain the current rate of profit if the price of wheat is 30*s.* a sack. But if 1,500,000 sacks of wheat are imported into England from France, the quantity of wheat which will then be required to be grown in England will be 4,500,000 sacks instead of 6,000,000 sacks; those lands, therefore, will be no longer sown with wheat which are least adapted for its growth<sup>1</sup>. It has been previously proved that the price of wheat is determined by the cost of producing it on those soils which are the least fitted for its growth. The price of wheat, therefore, will manifestly decline if the quantity which is required to be grown in England is diminished twenty-five per cent.; such a decrease as this in the quantity required to be grown at home will manifestly result from the importations from France. Before these foreign importations commenced, 30*s.* a sack was a price adequate to remunerate those who grew wheat upon the least fertile soils. The question therefore arises:—What will be the price which will adequately remunerate the growers of wheat, when the quantity of wheat required is diminished twenty-five per cent.?

The terms upon which the foreign commerce between

<sup>1</sup> In order to simplify the investigation it is for the present assumed that the demand for wheat is not increased in consequence of its diminished price.

BOOK III.  
CH. VII.

*the growth  
of corn in  
countries  
which im-  
port it.*

*The a-  
mount of  
wheat pro-  
duced in  
the country  
will deter-  
mine the  
price of  
wheat.*

*If the price  
as deter-  
mined pre-  
viously is  
insufficient*

BOOK III.  
CH. VII.

*to cause  
the neces-  
sary a-  
mount to  
be grown,*

*the price  
must rise.*

*The profits  
of pro-  
ducers will  
not be  
affected,*

England and France is supposed to be conducted imply that the price of wheat in England would be 16*s.* a sack. But now this important point has to be considered—Will the quantity of wheat which is required by England (namely 4,500,000 sacks) be grown if the English farmer can only obtain 16*s.* a sack for wheat? It is manifest that the quantity of wheat required will not be produced if 16*s.* a sack is not a remunerative price, for English farmers grow wheat for profit, and not for philanthropy. The people, however, must be supplied with wheat; if therefore 16*s.* a sack is not a sufficient price to induce the English farmers to grow the quantity of wheat required, a higher price will be willingly offered, rather than that there should be any deficiency in the supply. Let it therefore be supposed that wheat advances to 20*s.* a sack, and that at this price the supply is sufficient to meet the demand. But let us now consider in what manner the commerce between England and France will be affected by this advance in the price of wheat. At first sight it may appear that the profits of those who export iron would be enormously increased by this advance in the price of wheat; an iron-master, for instance, if he sells a ton of iron in England only obtains 12*l.* for it, whereas by sending it to France he can exchange it for fifteen sacks of wheat, which are in England worth 15*l.*; therefore his profits appear to be increased by 3*l.* upon each ton of iron exported. But the competition of capital will, in this as in every other case, render it impossible for the iron-master to continue appropriating to himself these exceptionally high profits; each iron-master would eagerly strive to send as much iron as possible to France if the price obtained for a ton of iron exported to France exceeded by 3*l.* the price realised for the iron when sold in England. This anxiety to export iron would soon cause the French market to be over supplied; iron would therefore fall in price in France, or, in other words, iron would exchange for a less quantity of wheat. In this way the quantity of wheat given for a ton of iron might be reduced from fifteen to twelve sacks. This fall in the price of iron in France will increase the demand for iron in that country, and it may be supposed that 120,000 tons of iron are exported to France, whereas the annual export

of iron had before only amounted to 100,000 tons. This increased demand in France for English iron will affect its price in the latter country, and the price may consequently advance in England from 12*l.* to 13*l.* a ton. Such are the terms upon which it may be supposed that the exchange between the two countries is ultimately conducted. A ton of iron will therefore now be equivalent in value to twelve sacks of wheat; but a ton of iron is in England worth 13*l.*, therefore the price of wheat in England will be 21*s.* 8*d.* a sack. When wheat is at this price a much greater quantity can be grown in England at a remunerative profit than when a sack of wheat sold for 16*s.*; it may therefore be assumed that the wheat now grown in England, together with the wheat imported from France, is sufficient to supply the English market. From what has been just stated it will be perceived that it is necessary, in order to adjust the equation of international trade, that the demand and the supply should be equalised in both the countries.

It will be remarked, that the price both of the imported and the exported commodity is affected by foreign commerce. It has for instance been supposed, if England had no foreign commerce, that the price of wheat would be 30*s.* a sack, and that the price of a ton of iron would be 10*l.* It has been shown that, by foreign commerce, the price of a sack of wheat may be reduced from 30*s.* to 21*s.* 8*d.*, and the price of a ton of iron raised from 10*l.* to 13*l.* It may therefore be naturally asked:—Is it certain that the consumer of commodities is benefited by foreign commerce? May not the advantage arising from the reduction in the price of the imported commodity be entirely nullified by a rise in the price of the exported commodity? It can be proved, without entering into details, that the wealth of a nation must be increased by foreign commerce. Foreign commerce increases the productive powers of labour and capital by causing labour and capital in each country to be applied to those particular branches of industry for which the country has the greatest natural advantages. Thus the wheat imported into England would cost very much more, if grown in England, than the iron costs with which this wheat is purchased from France. Consequently foreign commerce

BOOK III.  
CH. VII.

*but the terms of international trade will be differently adjusted.*

*Is the consumer of commodities invariably benefited by international trade?*

BOOK III.  
CH. VII.

*It is possible that a particular class may be injured.*

increases the productive powers of labour and capital, and therefore must augment each nation's wealth.

It is however no doubt true, that a particular class of consumers may not be benefited, but, on the other hand, may be injured by foreign commerce. If, for instance, wheat is imported from France to England, in exchange for iron, an increased quantity of wheat must be grown in France, and therefore the price of wheat will rise in France; the iron which France imports from England will of course be reduced in price. But to the great body of the people, and certainly to the labouring classes, cheap iron will afford no compensation whatever for even a slight rise in the price of bread. It is however to be borne in mind that any special class that may be injured by a rise in the price of an exported commodity will receive a compensation in the general stimulus given to the industry of a country by the development of foreign commerce. There is no section of the community which will probably more largely participate in these advantages than the labourers, because, as has often been explained, the chief result of free exchange, not only between different countries but also between different parts of the same country, is to increase the efficiency both of capital and labour, and if more wealth is produced by the expenditure of the same amount of capital and labour more can be distributed as profits to the employer and as wages to the labourer.

*Although this loss to the consumer may take place,*

We have been the more anxious to point out the loss which foreign commerce may inflict upon those who consume the exported commodity, although the loss is one which is doubtless more than made up for in practice by counterbalancing advantages, because it is too much the custom to think only of the interest of the trader or merchant, and entirely to forget the consumer. Many of our statesmen consider that the nation must be advancing in prosperity and happiness if the Board of Trade Returns exhibit an augmentation in the exports and imports. But on behalf of the consumer it should be borne in mind, that a rise in the price of the commodities exported is not unfrequently a prominent feature of an expanding foreign trade. Although this, as a possible result of foreign trade, is one which ought not to be lost sight of, yet we should be the last to advocate that com-

*restrictions on trade are impolitic and unjust.*

mercial intercourse between countries should be impeded, because commodities may rise in price in the country from which they are exported. A policy which should attempt such restrictions would not only be unwise, but ought almost to be stigmatised as wicked. Man, we conceive, has an indefeasible right that the wealth which ministers to his wants, and provides his enjoyments, should be produced with as little labour as possible. This can only be secured by perfectly free commercial intercourse between all nations. The benefits conferred by foreign commerce are truly cosmopolitan; for foreign commerce brings men of every nation in contact, and thus becomes the most powerful agent of civilisation. It removes the barriers between nations, and makes them one, as far as their industrial economy is concerned. A rancorous enmity, combined with an ignorance of the true principles of trade, for centuries raised every possible obstacle to a trade between France and England. Many of our manufactured commodities are far superior to those possessed by the French; they, on the other hand, had products which could not be grown on our soil, and under our climate. If the Straits of Dover were bridged over by a narrow strip of land, and the two countries formed one nation, it would seem inexpressibly absurd that those who lived in the north of the country should scarcely be permitted to taste the products which are grown in the south; it would seem equally absurd, that people in one part of the country should be compelled to manufacture certain commodities, under the most unfavourable conditions, because they were not permitted to purchase these commodities in another part of the country, although there, the quality would be better, and the price cheaper. A restrictive policy which seems so unreasonable if two nations become one, is not more defensible when the two nations are separated by a boundary which is often merely artificial.

It has been thought desirable to point out the injury which in certain cases may be inflicted on particular classes by foreign commerce, in order more completely to understand the causes which make so many countries still favour a policy of protection. The advantages which England has derived from free trade are so striking and so apparent, that our countrymen are perhaps too prone to treat those

*The reasons why protection is still upheld in many countries.*

who support protection with contempt and ridicule. It should, however, be remembered that in almost every country except our own the protectionist party is numerous and powerful. Free trade has never been popular either in France, the United States, or in our colonies. It has moreover been repeatedly shown that in America and Australia the great body of the working men are ardent protectionists. The reason of this is probably due to the fact that they observe the loss which may be inflicted upon particular classes of the community by unrestricted foreign commerce, whilst they fail to understand the advantages which will more than compensate this loss. It is supposed that labourers have a particular interest in protecting the trade to which they are accustomed against foreign competition. Thus a cotton operative in America might be ready to admit that the aggregate production of wealth in his country would be increased if all cotton goods were imported from Lancashire. But he would argue that if the cotton manufacture should cease in America, he would lose the advantage of his acquired skill; he would be compelled to resort to some employment to which he was not accustomed, and in which he would consequently obtain lower wages. It is only fair to acknowledge that these allegations may be true. The only way in which they can be met is to assert the principle that mankind in general is interested in having no unnecessary obstacles interposed to the production of wealth. A government cannot be pursuing a just or wise policy if it causes the labour and capital of a community to work with diminished efficiency. The abolition of all protective duties in America might temporarily cause some loss to particular classes. The introduction of the greatest industrial improvements have always caused some suffering to individuals. Not a few coach-proprietors and road-side innkeepers were ruined by railways. Every new machine that is invented dispenses with the necessity of employing some kind of manual skill which was previously a valuable possession to those who applied it. A government would not for these reasons impede the construction of railways or the introduction of machinery. It would be felt that the temporary interests of the few must not stand in the way of the permanent welfare of the many. Similar considerations resting on



a wider basis suggest the arguments to be urged against protection. Free trade enables the labour and capital of each country to work with maximum efficiency. The additional wealth which is consequently produced when commerce is unrestricted far more than compensates a nation for the temporary loss inflicted on individuals by the abolition of protective duties.

Although, as previously remarked, few can now be found in England who would favour the re-imposition of protective duties, yet there arose a few years since a new and somewhat curious objection to free trade. England, it is argued, is suffering because with regard to the abolition of protective duties there has not been sufficient reciprocity between her and other countries. It is in fact argued that free trade is excellent when all countries adopt it, but that a country pursues a too generous course, and one involving too much self-sacrifice, if she abolishes protective duties whilst her neighbours retain them. It is no doubt perfectly true that England would be benefited if other countries adopted free trade. We therefore have every inducement to do all in our power to make them take such a course. It is also equally true that other countries have shared the advantages which England has derived from free trade; but if we re-imposed protective duties because other countries are sufficiently unwise to retain them, the only result would be that we should inflict an injury upon ourselves in order to avenge the unwise financial policy pursued by other countries. England would be largely benefited by the active stimulus which would be given to her iron trade, if America would remove protective duties upon manufactured iron. But we should be acting with ignorant perversity if we refused to buy the wheat from America which we so urgently require, because America refuses to purchase as much English iron as we are willing to sell her. It is therefore evident that with regard to free trade there is reciprocity, but in a sense directly opposed to those who desire that protective duties should be re-imposed because other countries will not abolish them. The advantages associated with free trade are reciprocal, because even if only one country adopts such a policy, the benefits resulting are diffused over every country with which commerce is carried on.

*The fallacy of the doctrine of "reciprocity."*

It is probable that the opinions in favour of reciprocity, to which reference has just been made, have received some encouragement from the attempts that have been made to negotiate commercial treaties with various foreign countries. It cannot be denied that such treaties are to a certain extent a departure from the principles of free trade. Thus in negotiating a commercial treaty with France, if it is said that in the event of France making a certain reduction of duty on various English goods, England will make corresponding reductions in duties on French goods, it at once becomes obvious that a certain sanction is given to the principle that reductions in duties are made not because they are good for the country which makes them, but because they lead to an increased foreign outlet for home produce. This probably indicates the chief cause why England failed in her negotiations to renew the commercial treaty with France; for it is evident that unless England were prepared to depart from the principle of free trade she could not threaten France with re-imposition of duties. Although it is to be regretted that the commercial treaty with France was not renewed, yet an important advantage has been gained in leaving England greater freedom to deal with various import duties than she would have had if a treaty had been concluded<sup>1</sup>.

*The cost of carriage must be taken into account.*

It now becomes necessary, in order to complete the theory of international trade, no longer to omit the consideration of the cost of carrying from one country to another the commodities which are interchanged. The subject will be best explained by the former example. Let it be assumed that the cost of exporting iron from the English to the French market is 1*l.* per ton, and that the cost of exporting wheat from the French to the English market is 2*s.* a sack; the question therefore at once suggests itself, What share of this cost of carriage is borne by each country respectively? Let the terms of exchange be one ton of iron for twelve sacks of wheat; the iron in England being raised in price from 10*l.* to 13*l.* a ton, in consequence of the foreign demand. We will first examine

<sup>1</sup> The subject of commercial treaties and many questions connected with free trade and protection referred to in this chapter, I have discussed at greater length in another book called *Free Trade and Protection*.

what will take place if the cost of carriage were borne entirely by the exporter; the English merchants paying the whole expenses of sending the iron to France, and the French merchants paying the whole expense of sending wheat to England. Upon this hypothesis, although England would nominally sell her iron to France at 13*l.* a ton, yet the real price would be only 12*l.*, because 1*l.* per ton has to be deducted for cost of carriage; similarly 2*s.* a sack would have to be deducted from the nominal price which the French obtain for the wheat sent to England. If, therefore, France gave England 13*l.* a ton for iron, iron must be selling in the English market for 12*l.* a ton: if it sold for more, it would be manifestly to the advantage of the English merchant to dispose of his iron at home, instead of exporting it to France; for the same reason wheat must be selling in the French market at 2*s.* a sack less than the price at which England purchases it from France, in order to compensate the French exporter of wheat for the cost of carriage. Each country will therefore have to pay a higher price for the commodities it imports, in consequence of the cost of carriage; therefore the demand for the imported commodity will not be so great as it would be if no expense were involved in carrying goods from one country to another. There will therefore be a diminution in the French demand for English iron, and in the English demand for French wheat. But the falling off in the demand may vary in different ratios in the two countries. Thus a rise of 2*s.* in the price of French wheat may diminish the demand for French wheat in England by one-fifth, whereas a rise of 1*l.* a ton in the price of iron may cause only a decrease of one-tenth in the quantity of iron purchased by France from England. Our previous analysis has shown that the terms upon which commodities are exchanged, in international trade, are entirely regulated by the demand. Each country purchases the imported commodities by those which are exported, and the amount of the demand which a country has for any commodity depends upon its price; if, therefore, a country wishes another to purchase a greater quantity of her exports, the price of these exports must be reduced; consequently, when the bargain of international trade is finally settled, the price of imported and exported com-

*The demand in each country will be checked, but in different ratios.*

BOOK III.  
CH. VII.

*The share  
of cost of  
carriage  
borne by  
each de-  
pends upon  
this ratio.*

*Analysis  
of the effect  
produced  
in a par-  
ticular  
case.*

modities must be such that each country is enabled, by means of her exports, to pay for all the commodities which are imported.

If the cost of carriage should raise the price of the commodities interchanged in foreign commerce, the amount of this increased cost, which is borne by each of the countries respectively between which the trade is carried on, depends upon the relative degree in which the demand for imported commodities is affected. Thus it was above supposed that the cost of carriage diminishes the demand for French wheat in England by one-fifth; whereas the same cause only diminishes the demand for English iron in France by one-tenth. We will illustrate this by a numerical example.

Suppose that 100,000 tons of iron would be each year exported from England to France, if commodities could be sent from one country to another without any cost of carriage; and that, under the same supposition, France would export to England 1,500,000 sacks of wheat in exchange for the iron. Let it also be assumed that English iron would sell for 15*l.* a ton in France if there were no cost of carriage; the cost of carriage, being 1*l.* a ton, will raise the price of English iron in the French market to 16*l.* a ton. Similarly, it may be assumed that cost of carriage raises the price of French wheat in the English market from 20*s.* to 22*s.* a sack. If English iron were sold to France at 15*l.* a ton, and if French wheat were sold to England at 20*s.* a sack, France would import 100,000 tons of iron, and England would import 1,500,000 sacks of wheat; the equation of international trade would consequently be satisfied, because the exports from each country would be exactly equivalent in value to the imports. But the rise in the price of English iron to 16*l.* a ton diminishes the demand of France by one-tenth, and the demand of England for French wheat is diminished by one-fifth, if its price rises to 22*s.* a sack. Although, therefore, the French will only purchase 90,000 tons of iron at 16*l.* a ton, yet they may be willing to increase their purchases by 5,000 tons, if iron is reduced in price 5*s.* a ton. The English iron-masters must submit to this reduction in price, because the demand for iron in France has been diminished by the cost of carriage, and the supply will

consequently exceed the demand if the price of iron remains at 16*l.* a ton. The French exporters of wheat must submit to a still greater reduction in price, in order to equalise the demand to the supply, because the demand of England for French wheat, when its price is raised, is more affected than is the case with the demand of France for English iron, when its price is raised. French wheat, therefore, may sell in England for 21*s.* instead of 22*s.* a sack; if this be so, the French growers of wheat will only obtain 19*s.* a sack for the wheat which they export to England, because there must be sufficient difference between the price of wheat in France and England to cover the cost of carriage, which is 2*s.* a sack. In a similar way the English iron-masters will only obtain 14*l.* 15*s.* a ton for the iron which they export to France, if iron is sold in the French market at 15*l.* 15*s.* a ton; because there must be such a difference between the price of iron in the French and English markets to cover the cost of carriage, which has been assumed to be 1*l.* a ton. The hypothesis which has been made consequently leads to the following results.

If there were no cost of carriage, iron would be selling in the English and French markets at 15*l.* a ton. The cost of carriage, which is supposed to be 1*l.* a ton, raises the price of iron in France to 15*l.* 15*s.* a ton, or, in other words, increases the price of iron by 15*s.* a ton. It would therefore appear, that France pays seventy-five per cent. of the cost which is involved in sending iron from England to France.

Again, if there were no cost of carriage, French wheat would be selling in England and France at 20*s.* a sack; the cost of carriage, which is supposed to be 2*s.* a sack, raises the price of French wheat in England to 21*s.* a sack; the cost of carriage, therefore, although amounting to 2*s.* a sack, only raises the price of wheat 1*s.* a sack in England. It would therefore appear that England only pays fifty per cent. of the cost which is involved in sending wheat from France to England.

These results consequently lead to the conclusion that France contributes more to the cost of carriage than England, or, in other words, that as far as international trade is concerned, the latter country is placed in a better

*Results arrived at from this analysis.*

*General principles as to the effect produced by*

BOOK III.  
CH. VII.

*any new  
element,  
such as  
cost of  
carriage.*

*The as-  
sumption  
made  
above,  
that the  
difference  
of price of  
any com-  
modity in  
two coun-  
tries can-  
not exceed  
the cost of  
carriage,  
shown to  
be true.*

position, as regards the cost of carriage, than the former country. This conclusion still further corroborates the following principle—If any new element, such as cost of carriage, affects the terms upon which the trade between the two countries is conducted, the re-adjustment of the bargain will most turn to the advantage of that country whose demand for the imported commodities is either most diminished or least increased by the new conditions of which account has to be taken.

It has been assumed, in the remarks which have just been made, that the difference in the price of any commodity, in two countries between which there is free commercial intercourse, cannot exceed the cost of sending a commodity from one country to the other.<sup>1</sup> Although this proposition appears to be a self-evident truth, yet it may be perhaps advisable to say a few words upon it. Let us take, as an example, the case above analysed. It has been there assumed that the cost of sending iron to France is 1*l.* a ton, and the cost of sending wheat from France to England is 2*s.* a sack. If there were no cost of carriage, the price of iron and wheat must be the same in England as in France; because if iron would realise even as little as 2*s.* 6*d.* a ton more in France than in England, the English iron-masters would vie with each other to sell as much of their iron as possible in France, in order to secure the extra 2*s.* 6*d.* a ton. This eager competition would rapidly reduce the price of iron in the two countries to an equality. It will be remembered that it has been also assumed that if there were no cost of carriage English iron would sell in each country for 15*l.* a ton, and that French wheat would sell in each country for 20*s.* a sack. These prices would adjust the equation of international trade, enabling the exports of each country exactly to pay for the imports. Again, it has been assumed that, when the cost of carriage is taken into consideration, English iron must sell for 15*l.* 15*s.* a ton in France, and French wheat must sell in England for

<sup>1</sup> In proving the proposition that there cannot be a greater difference in the price of any commodity in two countries than what is equivalent to the cost of carriage between them, it is necessary to suppose that in those countries where import duties are imposed the cost of carriage includes not only the cost of conveyance but the amount of the duty.

21s. a sack, in order that the equation of international trade may be satisfied. The question now suggests itself:—What, under these circumstances, will be the price of English iron in England, and what will be the price of French wheat in France? The answer may, at once, be given, that the price of iron in England will be 14*l.* 15*s.* a ton, and that the price of wheat in France will be 19*s.* a sack. This must be the case, for since the cost of sending iron from England to France is supposed to be 1*l.* a ton, the difference in the price of iron in the two countries must be 1*l.* a ton. If the difference were less than this, and the price of iron were 15*l.* a ton in England, no iron-masters would send any iron to France, as it would be so much more remunerative to sell it in England.

Again, there cannot be a greater difference in the price of iron in the two countries than 1*l.* a ton, for if iron were 16*l.* 10*s.* a ton in France, and 15*l.* in England, the English iron-masters would vie with each other to sell all their iron in France, since their iron, after paying the cost of carriage, would realise 10*s.* a ton more in France than in England. These considerations establish the proposition that the difference in the price of any commodity, in two countries, is exactly equivalent to the cost of sending this commodity from the one country to the other.

It may be objected that prices in different countries cannot be compared, because countries have seldom the same currency. Without anticipating the remarks which will be made in a future chapter on currency, it will be sufficient to state that the price of a commodity in different countries can always be compared by considering how much gold it will exchange for. The distinctive characteristic of a substance like gold is, that it is a universal medium of exchange; people in France are as ready to sell their commodities for gold as we are in England. The cost of sending an ounce of gold to France is most trifling, and therefore, if an ounce of gold would purchase a greater quantity of wheat in France, including the cost of sending the wheat from France to England, than could be purchased by the same quantity of gold in England, gold will be exported to France for the purpose of purchasing wheat. The demand for wheat would therefore rise in France, and its price would increase. Similarly, if the English con-

*The difference of price must exactly equal the cost of carriage.*

*These results are not affected by the difference of currency in two countries.*

BOOK III.  
CH. VII.

*These truths may be extended to trade between any number of countries in any number of articles.*

sumers of wheat purchased wheat from the French instead of the English growers, the demand for wheat in England would decline; this rise in the price of French wheat, and this fall in the price of English wheat, would continue until at length there ceased to be any profit in sending gold from England to purchase wheat in France. Such a profit would manifestly cease to exist if there were no greater difference in the value of wheat in the two countries, estimated in gold, than would be equivalent to the cost of carriage. But the price of a commodity has been defined to be its value estimated in gold. It may be therefore said that, if the trade between two countries is perfectly free, there cannot permanently be any greater difference in the price of any commodity in the two countries than would be equivalent to the cost of carrying the commodity from the one country to the other.

Throughout this chapter, the assumption has been made that foreign commerce has been restricted to two countries, and to two commodities. The principles which have been deduced from this assumption enable us to establish a complete theory of international trade. Let us consider how the bargains of foreign commerce are adjusted in such a country as England, which exports the most varied commodities to every country in the world, and imports in exchange every product which can either gratify the desires, or minister to the wants of the people. In this case it is equally true that there is an equation of international trade which must be satisfied; it is easy to show, by a method of investigation similar to that pursued when corn was supposed to be exchanged for iron, that the aggregate exports must ultimately pay for the aggregate imports. The terms upon which this exchange is conducted are regulated entirely by the relative amount of the demand which exists in two trading countries for the various commodities which each country respectively imports. It has already been shown that England must give France a greater quantity of iron for the same amount of wheat, or, in other words, the terms of the exchange will turn to the advantage of France, and to the disadvantage of England, if England's demand for French wheat increases in a greater ratio than the demand of France for English iron. In a similar way the bargain of foreign



trade will become less favourable to England, or, in other words, England will be compelled to receive less for her exports, and to give more for her imports, if her demand for the various commodities which she imports increases in a greater ratio than the demand which other countries may have for the various commodities which compose her aggregate exports.

It has been shown in this chapter that a country pays for its imports by the commodities it exports, and that the equation of international trade is adjusted when the exports are exactly equivalent in value to the imports. It may, however, be thought that this adjustment never actually takes place, because in no country does it appear that the exports are equal in value to the imports. For instance, the value of the commodities imported into England always greatly exceeds the value of those which are exported. According to the latest return<sup>1</sup> this excess is no less than 100,000,000*l.* per annum. On the other hand, the commodities exported from India always greatly exceed in value those which are imported. The value of the exports from India in 1881 was 76,000,000*l.*, whereas the imports were not more than 62,000,000*l.* This excess of exports over imports is not an accidental circumstance, but represents the normal condition of Indian trade. We will, therefore, proceed to explain the cause of this apparent contradiction between actual facts and the conclusions which have been deduced from the principles of international trade.

When it is said that exports and imports must be equivalent in value because a country pays for her imports by her exports, it is tacitly assumed that a country has to make to foreign countries no other payment except for the commodities she imports, and that foreign countries have, on their part, to make no other payment to her except for the commodities which she has exported to them. Upon this assumption it is easy to show that there must be a constant tendency in operation to make the exports from a country equivalent in value to the commodities imported. For, reverting to our previous example, suppose that the foreign commerce of France and England respectively was confined to an interchange of commodities between these

*The exports of some countries permanently exceed the imports; and vice versa.*

*Explanation of this apparent contradiction of what has been previously stated.*

<sup>1</sup> See Statistical abstract, 1882.

BOOK III.  
CH. VII.

two countries. If the value of the goods which England sells to France exceeds the value of the goods which France sells to England, it is obvious that a balance, which must be liquidated by a transmission of money, will be due each year from France to England. The amount of money in France will thus be constantly diminished, and the amount of money in England will be *pro tanto* increased. The result of this will be that prices will be continually declining in France and continually rising in England. But a rise of prices in England and a fall of prices in France will make it more advantageous for England to purchase commodities from France, and will make it less advantageous for France to purchase commodities in England. Hence the exports to France will diminish and the imports from France will increase. It, therefore, follows that when the exports exceed the imports a force is brought into operation to diminish the exports and to increase the imports, and this force will continue in operation until a position of equilibrium is attained and the exports are equal in value to the imports.

But the conclusion which has just been established is, as before remarked, based on the supposition that the countries which trade with each other have no other payments to make or to receive, except for the commodities which are imported and exported. But suppose that France has to make a large annual payment to England of 10,000,000*l.* as interest for money which England has lent to France: it can then be readily shown that the amount of commodities which England imports from France will exceed the value of her exports to that country by 10,000,000*l.* a year, this being the annual amount of the indebtedness of France to England. The exports can no longer be equivalent in value to the imports, because, if this were so, France would have each year to transmit to England 10,000,000*l.* in order to pay the interest on the money borrowed from England. If the monetary circulation of England were thus each year largely added to, and the monetary circulation of France were each year reduced, it is obvious that gold would become comparatively plentiful in England and scarce in France, or, in other words, prices would rise in England and decline in France. It would, therefore, each year become

*When one country has incurred pecuniary obligations to another, the indebted country must send more goods to the nation from which it has borrowed than it receives in return, i.e. its exports to must permanently exceed its*

more advantageous for France to pay the amount owed to England by transmitting commodities instead of money, and thus it is evident that an adjustment would ultimately be attained, when France exported to England a sufficient amount of commodities not only to pay for the commodities she imports, but also to pay the amount which she annually owes to England. It therefore appears, that it is not correct to say that in all cases the equation of international trade requires that the exports of a country should be equivalent in value to the imports; on the contrary, if a country is in debt to other countries, her exports will exceed in value her imports by an amount equivalent to her annual indebtedness. If, on the other hand, a country should be a creditor and not a debtor of other countries, the value of her imports will exceed that of her exports by an amount which will be equivalent to the indebtedness of other countries to her. In estimating the amount of indebtedness of one country to another an account ought also to be taken of payment due for services rendered, such for instance as the carriage of goods. One of the chief reasons why the imports from the United States to England always largely exceed in value the exports, is due to the fact that the carrying trade between the two countries is almost entirely done by British ships; 80 per cent. of the international commerce of the United States being carried in foreign vessels chiefly English; whereas of the aggregate tonnage reaching English ports 70 per cent. belongs to British owners. It is therefore evident that a considerable amount of the produce exported from the United States represents a payment to English merchants and shipowners for the service rendered in carrying American produce. The enunciation of these principles at once affords an explanation of the circumstance to which allusion has already been made, namely, that England's imports largely exceed her exports, whereas in India, and in many other countries, the exports exceed the imports. From the number of foreign loans that are raised in the London Money Market, and from the great amount of English capital that is embarked in various foreign investments, it is quite evident that large sums are each year due to England from foreign countries, independently of the amount which may be due to England for the

BOOK III.  
CH. VII.

*imports  
from that  
country.*

BOOK III.  
CH. VII.

*The indebtedness of India to England causes the exports from India to exceed in value the imports which she receives from England.*

commodities purchased from her. Hence it follows that foreign countries will have to send to England an amount of commodities considerably in excess of the amount which would be required to pay for the commodities procured from England. It therefore appears that England's imports largely exceed her exports because of the great amount of capital which she has invested in foreign countries.

After the explanation which has just been given, it is scarcely necessary to say that if a country borrows from other countries more capital than she lends to them, an exactly opposite phenomenon will occur to that which happens in England, for then the exports must be in excess of the imports. For instance, it is well known that scarcely any capital is embarked either by the Indian Government or by the Indian people in any foreign investment, whereas England has lent large sums to the Indian Government, and a great amount of English capital has also been invested in various undertakings in India, such as railways and irrigation works. A considerable amount is consequently each year due from India to England for the money which has thus been invested in India. India has also annually to pay England a very large sum for the expenses incurred by the Government of India in England, such as official salaries, and official pensions. India, therefore, has to export commodities not only sufficient to pay for those which are imported, but also sufficient to liquidate the payments to which reference has just been made. Her exports must therefore each year be largely in excess of her imports.

The principles of international trade have now been examined in sufficient detail. In the next chapter these principles will be applied to a very important case. The laws will be investigated which determine the value of money, when the precious metals of which money is composed are considered as commodities, exported and imported, as ordinary articles of commerce.

## CHAPTER VIII.

### ON THE TRANSMISSION OF THE PRECIOUS METALS FROM ONE COUNTRY TO ANOTHER.

**E**ACH country obtains its supply of the precious metals in two distinct ways. In the first place, gold and silver are imported from the mining countries as ordinary commodities of commerce, and secondly, the precious metals, in the form of money<sup>1</sup>, are sent from one country

BOOK III.  
CH. VIII.

*Gold may  
be trans-  
mitted*

<sup>1</sup> In this chapter, it is assumed that the value of the metal which is chosen as the standard currency in each country is the same whether in coin or in bullion. Thus in England, the standard currency being gold, the value of a given weight of gold, whether in coin or in bullion, is the same; whereas, India having a silver standard, the same remark applies in that country to silver. It has already been stated that a certain weight of gold must have the same value whether in bullion or in specie, if no charge is made for the expense of coining this gold. In England the coining of gold is performed by the mint gratuitously. If therefore an ounce of gold is taken to the English mint, its value must be exactly represented by the amount of money into which it can be coined. As previously stated, silver and bronze money have an exchange value as coins greater than the actual value of a corresponding weight of the metals of which they are composed. Hence the authorities of the mint very properly decline to coin silver and bronze for private individuals; if this rule were departed from, individuals would be able to make, at the expense of the nation, a very considerable profit by bringing silver and copper bullion to the mint and getting it coined. If gold in bullion were in the slightest degree more valuable than when in coin, it would at once become profitable to melt money and thus convert it into bullion. If, on the other hand, gold bullion were less valuable than coin, bullion would be immediately taken to the mint to be converted into money. It is therefore evident when no charge is made for coining, that the value of bullion and specie must be exactly equivalent. It may however be thought expedient that the Government should not bear the cost of coining. A certain sum might be charged, termed a seignorage, when bullion is converted into money. If it be assumed that this seignorage is one per cent. upon the amount coined, the value of a certain quantity of the precious metals when in the form of money would exceed by one per cent. the value of the same weight of bullion. The question whether or not it would be desirable to impose a seignorage at the English mint must be mainly

BOOK III.  
CH. VIII.

*either as  
an article  
of com-  
merce or  
as money.*

to another for various purposes. For instance, loans are raised in England for India, and these loans are in part transmitted to that country either in bullion or in specie. It also frequently happens that a large amount of capital in the form of bullion or specie has to be exported for the carrying on of some industrial undertaking such as the Suez Canal. A great portion of the rent of the land in Ireland is paid in money to absentee landlords. Capital may be invested in our funds and railways by foreigners, whose dividends will be annually paid to them in money. Again, with regard to international trade, it must be remembered that commodities are not always exchanged by barter, but are almost always bought and sold for money. English merchants who purchase wheat from France pay for it in money, instead of offering other commodities, such as iron and coal, in exchange for this wheat. These and many other circumstances which might be enumerated, cause a considerable amount of the precious metals to be constantly passing, either in the form of money or bullion, from one country to another. It will be convenient, in the first place, to consider the precious metals as exports from the countries whence they are obtained.

*Gold forms  
part of the  
ordinary  
exports of  
some coun-  
tries, and  
its value is  
determined  
on the  
same prin-  
ciples as  
that of  
other com-  
modities.*

A considerable portion of the industry of Australia and California is devoted to gold-digging; gold is, to these countries, as truly a staple article of export as hardware or cotton cloth is in England. The precious metals may therefore be regarded as an ordinary article of export or import; the value of these metals is consequently regulated by the same laws as those which determine the value of any other commodity which is bought and sold in the transactions of foreign trade. For instance, Australia, like any other country, must pay for the commodities she imports by those which she exports. It makes no difference whatever that an important item of Australia's exports

determined by considering whether the inconvenience arising from even slightly altering a recognized standard of value would be compensated by removing the expense now imposed upon the nation at large by our present system of gratuitous coining of gold. It must moreover be borne in mind that as the representative value of our silver and bronze coinage is greater than its intrinsic value, the State makes a profit upon the coinage of silver and bronze, which more than compensates for the slight loss in the gratuitous coining of gold.

happens to be gold. It may in fact be shown, that the discovery of rich gold mines in Australia exerts on the industry of that country an influence similar to that which would be produced by the discovery of rich deposits of some material which England exports; such, for instance, as iron. If the discovery of very rich deposits of iron-stone caused a great increase in the quantity of iron annually produced in England, iron would inevitably decline in price, unless there was simultaneously a considerable increase in the demand. This decline in price would increase the home demand for iron, and the foreign demand would also be increased, because iron would be offered to foreign countries at lower rates. An equality between the demand and the supply would in this manner again be restored, and the whole of the increased quantity of iron produced would be quickly absorbed.

In a similar way, the results may be traced which would ensue from a great increase in the yield of gold in Australia, or of silver in Mexico and California. Taking the annual yield of gold in Australia to be about one million ounces, suppose that, from the discovery of richer deposits, or from improvements in quartz-crushing, Australia annually yielded 2,000,000 ounces of gold, instead of 1,000,000 ounces. How would this increased quantity of the precious metals be absorbed? It has been said that additional supplies of iron would be absorbed by a decline in its value increasing the demand for it. Let us now inquire if an additional supply of gold will not be absorbed in a similar way.

It is evident that Australia would not require this additional 1,000,000 ounces of gold for her own use. She will therefore export the gold to other countries; but in what form, and for what purpose, will this gold be exported? In the first place, Australia, having become so much wealthier, would more largely purchase foreign commodities. Every article of luxury or utility which Australia has been previously accustomed to obtain from foreign countries, she would now purchase in larger quantities. The consequence of this would inevitably be, that these commodities would advance in price, on account of the increased demand. Suppose the exports from England to Australia were increased by 20 per cent., this increased demand would cause the price of the articles which compose these exports

*A great increase in the production of gold*

*would be absorbed in the same way as a great increase in the production of iron.*

BOOK III.  
CH. VIII.

to rise in England, as well as in Australia. The value of gold, estimated in these commodities, would therefore decline, and thus a tendency is exerted, just in the same way as in the case of the iron, to cause the increased yield of gold to be absorbed, in consequence of a decline in its value.

*Gold is  
also trans-  
mitted in  
the form  
of money,*

*for the  
payment  
of debts,*

*or for in-  
vestment.*

Having now considered the case in which the precious metals are sent from the mining countries as a staple commodity of commerce, we will proceed to investigate the second of the two modes by which the precious metals are distributed over the world. At the commencement of this chapter an enumeration was made of some of the various purposes for which gold and silver are transmitted from one country to another in the form of money. The reason of this constant transmission is, that gold and silver contain great value in small bulk, and therefore can be sent from one country to another at comparatively little cost. The precious metals, moreover, are willingly accepted in exchange for goods purchased by every trading community in the world. In former years vast sums of specie were sent from England to India, to pay the wages of those engaged upon the railways, and other public works which were constructed principally by English capital.

The precious metals are also transmitted from one country to another, for the purpose of investment. If, according to our former example, the yield of gold in Australia should be doubled, it would be reasonable to conclude, that the whole of this increased gold would not be entirely absorbed by the consequent expansion of trade. Many of those who possessed the gold would send a portion of it to England and other countries, to be invested in various securities, such as funds, railway shares, &c. Statistical returns prove that this is the course pursued. Almost the entire gold which Australia annually yields is sent to England. A portion of this pays for the commodities which England exports to Australia; a great part of the remainder is invested in our funds, in railway shares, bank shares, and various other securities, which are bought and sold in our money market. The precious metals which are thus poured into England she again redistributes, having sent in some years no less a sum than 14,000,000*l.* sterling to India and China.



In the remarks on price, it was shown that the general prices which prevail in a country are regulated by the extent of its commerce, and by the amount of the precious metals which exist in the country in the form of money. It may, in general terms, be stated, that if the population and wealth of a country increase, prices will decline, unless a greater amount of money is brought into circulation or unless various substitutes for money, such as cheques, bank notes, etc., are more largely used. On the other hand, prices will rise if a greater amount of money is brought into circulation, when there is neither an expansion of commerce nor an increased production of wealth. It is most undesirable that there should be any great fluctuations in general prices; it is true, however, that popular feeling is not unfrequently opposed to this idea, for there are many who still think that general high prices are advantageous to the producers of commodities, and that a general decline in prices would benefit those who purchased the commodities. A general rise or fall in prices means that the standard of value is altered; if there is a general rise in prices to the extent of one hundred per cent., two sovereigns will be only worth as much as one sovereign was worth before; the country would not be richer; the only result would be, that the terms of every monetary contract would be altered. Those who had fixed money payments to make would only have to give half as much value as before, and all whose incomes were derived from such investments as funds, guaranteed stocks, &c., would have their real incomes diminished one half, for 300% a year would now be worth no more than 150%. a year was worth previously. Such consequences would not only be disastrous to individuals, but would also, if of frequent occurrence, give to all monetary transactions an uncertainty which would act most prejudicially upon the interests of commerce. It is therefore of great importance that general prices, or, in other words, the value of gold, should fluctuate as little as possible. General prices are, as previously stated, regulated by the quantity of money, and substitutes for money, in circulation, compared with the amount of the nation's wealth and commerce; hence, in order to prevent a fluctuation in the general prices which prevail in a country, the quantity of money in cir-

BOOK III.  
CH. VIII.

*The quantity of money in circulation must increase as commerce increases in order that prices may not fluctuate.*

## BOOK III.

## CH. VIII.

*Method of  
adjustment  
which  
tends to  
keep prices  
constant in  
England.*

culatation ought to increase or decrease as the commerce of the country increases or decreases.

It may appear that such an adjustment can have little chance of being made in England, because she receives gold from so many sources, and again sends it to other countries for so many purposes. But, in spite of this apparent complexity, there is an agency constantly at work to regulate the quantity of money in circulation, so that the value of gold exhibits great steadiness, and, except within certain limits, is subject to few fluctuations. The mode in which this agency acts may be explained in the following manner. Suppose that the quantity of gold imported by England from the gold-producing countries during the next year were to exceed by 4,000,000*l.* the amount which she imports during the present year, but that in every other respect there should be no difference with regard to her commerce, either home or foreign, between the next year and the present one. This extra 4,000,000*l.* of gold, it may be further supposed, is converted into coin. It might, therefore, appear that an additional 4,000,000*l.* of money is brought into circulation, and that, in consequence of this increased specie circulation, general prices would inevitably rise. But this rise in general prices could not long continue; a force would be brought into operation which would exert a tendency to restore prices to the point at which they previously stood. For if such a general rise in price should occur in England during the next year, and no similar rise should take place in other countries, it would manifestly be to the interest of England to purchase such commodities as wheat from foreign countries, in order to avoid the higher prices prevailing in England. Foreign merchants would also be anxious to participate in the high prices current in England, and would therefore increase, as far as possible, the quantity of goods which they export to England. Both of these causes would act in the same direction, and would alike exert an influence to increase England's imports and to diminish her exports. The equation of international trade would therefore be disturbed, and a large amount of money would be sent abroad to pay for these increased imports; in this manner the gold temporarily added to England's circulation would in great part be rapidly with-

drawn. The extra 4,000,000*l.* of gold would not be permanently added to England's specie circulation, but would be gradually distributed over every trading country.

The various modes in which the precious metals are transmitted from one country to another have now been described. A special chapter will be devoted to the consideration of the leading effects which have been produced by the discoveries of gold which have been made since 1848 in Australia and California. Allusion will also be made to the probable results of the recent discovery in the United States of silver mines of such extraordinary richness that the annual production of silver was suddenly more than doubled.

BOOK III.  
CH. VIII.

## CHAPTER IX.

### FOREIGN EXCHANGES.

BOOK III.  
CH. IX.

*Methods  
by which  
international  
debts may  
be settled.*

IN treating of the subject of foreign exchanges an explanation will be given of the manner in which the wholesale transactions of commerce are ordinarily conducted. If coal is exported to France and silk is imported from that country, a cargo of coal is not bartered for so many bales of silk, but the coal is sold for money and the silk is purchased with money, although as we shall proceed to show money in the form of coin is not sent by the English merchant to France, nor by the French merchant to England. Let it be supposed that A, an English merchant, sells a cargo of coal to B, a French merchant, for 1000*l.*, and that C, another English merchant, purchases from D, a French merchant, a certain number of bales of silk for 1000*l.*<sup>1</sup> It is manifest that there are two distinct ways in which such trading transactions as these may be settled. In the first place, B may pay for the coal he purchases by sending to A 1000*l.* from France to England; in a similar way C may pay for the silk which he purchases by sending to D 1000*l.* from England to France. It is evident that, if this plan were adopted, the risk and expense would be incurred of sending 1000*l.* from France to England, and also of sending 1000*l.* from England to France.

A second very obvious course might be adopted, which would avoid the necessity of transmitting any money from one country to the other, and consequently the expense just alluded to would be saved. If C were instructed to pay the English merchant A 1000*l.*, instead of paying the same amount to D, who lives in France; if also the French

<sup>1</sup> The currencies of France and England are, in this case, supposed to be identical.

merchant B were instructed to pay D 1000*l.*, instead of sending this amount to A in England, the debts due to A and D for the coal and silk they have respectively sold would be discharged without the transfer of any money from the one country to the other. The course just described is almost invariably adopted in the transactions of foreign commerce; bills of exchange are the means by which the method is carried into practical effect. It is only necessary to explain the nature of bills of exchange, in order to show that they provide a machinery which enables the bargains of foreign commerce to be arranged in such a manner that the least possible amount of specie is transmitted from one country to another.

*Bills of  
exchange.*

*Their  
nature.*

In the above example, when A sells B a cargo of coal for 1000*l.*, A receives from B a bill of exchange. This bill is a written acknowledgement that B owes A 1000*l.*, and that this amount will be paid at the date for which the bill is drawn, if it is presented either at B's own bankers, or at any other establishment which has confidence in B's solvency. In a similar manner the French merchant D, who sells 1000*l.* worth of silk to the English merchant C, receives from C a bill of exchange for this amount. The English merchant A has therefore in his possession a bill for 1000*l.*, which has to be paid in France, and D, the French merchant, has also a bill for 1000*l.*, which is to be paid in England; if A and D exchange these bills, then A has a bill which will be paid in England, and D has a bill which will be paid in France; therefore both A and D's debt can be discharged without the transmission of any specie whatever from one country to the other. The exchange here supposed to take place between A and D is not usually effected directly by merchants themselves; such transactions form a distinct business, which is carried on by a class of middle men, who are termed money dealers or bill-discounters<sup>1</sup>.

The English merchant A, instead of waiting to exchange his bill with the French merchant D, at once sends it through his banker to an English bill-discounter, who readily cashes

*If the  
value of  
imports  
and ex-  
ports are  
equal,  
transmis-  
sion of  
specie is*

<sup>1</sup> The persons by whom this business is transacted render a very important service to commerce. The popular prejudice sometimes expressed against them probably arises from confusing them with the class of money lenders who advance money on accommodation bills at usurious rates of interest.

BOOK III.  
CH. IX.

*avoided by  
the use of  
bills of  
exchange.*

*If a  
balance is  
due from  
England  
to France,  
bills of  
exchange  
on France  
will be at*

*a premium  
about equi-  
valent to  
the cost of  
transmit-  
ting specie.*

it for him, A paying a small sum for commission. D in a similar manner gets his bill cashed by sending it to a discount house in France; in this way the English discount houses collect all the bills which are drawn upon France, and the French discount houses collect all the bills which are drawn upon England. The French and English discount houses then exchange the bills thus gathered together, and are remunerated for the trouble which they thus take, by the small commission which is paid to them. If, therefore, the value of the exports sold to France is exactly equal to the value of the imports which are brought from that country, the whole of the trade between the two countries can be carried on without the transmission of any specie; in fact, the transmission of specie can be as completely avoided as if the whole trade was one of barter, and coal and iron were bartered for silk and wine.

It, however, very rarely happens that the debtor and creditor account between two countries exactly balances without the transmission of specie. Suppose that the annual value of England's exports to France is 10,000,000*l.*, and that the annual value of the imports from that country is 12,000,000*l.* Under these circumstances it is manifest that the bills which are in the possession of French merchants, and which are drawn in England, will exceed in amount by 2,000,000*l.* the bills which are drawn upon France, and which are in the possession of English merchants. It is, of course, to the interest of the English merchant to pay the French merchant by bills drawn upon France; by doing so the English merchant saves the expense of sending specie to France. The French merchants who have bought the goods we export are for similar reasons anxious to pay the English merchants by bills drawn upon England. But since the value of England's imports from France exceeds the value of her exports to that country, England will have to pay to France a larger sum than France has to pay England; therefore the demand which exists in England for bills drawn on France will exceed by 2,000,000*l.* the demand which exists in France for bills drawn on England. In fact, English merchants have to pay in France 12,000,000*l.*, and there are only 10,000,000*l.* of French bills wherewith to make

the payment; some of the English merchants, therefore, will be obliged to transmit specie to the amount of 2,000,000*l.*; those who transmit this specie incur the expense of the transmission. If this expense were two per cent., it would, of course, be to the advantage of the English merchants to purchase bills in France, even if they paid one and a half per cent. premium for them; if bills were bought at this premium it would be cheaper by a half per cent. to make payments to France by means of these bills, instead of transmitting specie, which involves an expense of two per cent. English merchants, therefore, will compete for the purchase of bills drawn on France, and this competition will inevitably raise these bills to a premium which is approximately equivalent to the expense of transmitting specie to France. The premium upon bills cannot exceed this amount, because if it did so then it would be cheaper to transmit specie than bills.

Similar considerations will show that, in France, bills which are drawn on England will be at a corresponding discount. French merchants have to receive 2,000,000*l.* more for goods exported to England than they have to pay for goods imported from that country. In France there will be 12,000,000*l.* of bills drawn on England in possession of French merchants, and since France has only to pay England 10,000,000*l.*, there will be a demand for only this amount of bills drawn on England. 2,000,000*l.* of the bills drawn on England must therefore be sent to England to be cashed, and the money will then have to be transmitted to France. But if a bill drawn on England is not wanted in France to pay for goods bought in England, such bills must fall to a discount. A money dealer obviously cannot afford to give a merchant more than 98*l.* for a bill on England for 100*l.* if it is necessary to send his bill to England to be cashed, and have the money transmitted to France; since it has been assumed that such transmission costs two per cent. of the specie transmitted. When, therefore, bills drawn upon France are at a premium in England, bills drawn on England will be at a corresponding discount in France. If the state of things which is here described exists, it is technically said that the exchange is against England and in favour of France.

*Bills on  
England  
will be at  
a corre-  
sponding  
discount.*

BOOK III.  
CH. IX.

*The meaning of the saying that in this case exchange is against England, and in favour of France.*

*The meaning of exchange at par.*

*Currencies have hitherto been supposed identical.*

*How our conclusions must be expressed when the currencies differ.*

The origin of this phraseology may be readily explained. It is evident, that the exchange is against England, and in favour of France, when the commerce between the two countries is such that it is necessary to send specie from England to France. At one time the belief was universal, and is still very general, that the profit which a nation derives from foreign commerce can be accurately estimated by the amount of specie which she succeeded in drawing to herself from other countries. This belief formed the basis of the Mercantile System. Statesmen of every commercial nation have, in years gone by, vied with each other in framing ingenious devices to encourage the importation of the precious metals, and to impede their export. It is no wonder, then, that the exchange is described as being against a country, when its foreign trade is in such a position as inevitably to require the transmission of specie to foreign countries.

The exchange will, of course, be at par when the value of the exports to a country exactly equals the value of the imports from the same country. If it had been supposed, in the above example, that the value of England's imports from France was 10,000,000*l.* instead of 12,000,000*l.*, then, in each country, the demand for bills drawn upon the other country would be exactly equal to the amount of bills to be disposed of; nothing would cause the bills of either country to rise to a premium, or fall to a discount, and the exchange would in each country be at par.

Hitherto, in this chapter, we have supposed that the currencies of different nations are identical. We will now examine a case where two countries, such as France and England, have the different currencies which they possess at the present time, and which, in spite of reason, economy, and convenience, they will probably maintain for many years to come.

In the French currency, the franc, as the general measure of value, occupies the same position as the pound sterling does in our own coinage. If the French wish to express the value of a landed estate, or any other kind of wealth, they say that it is worth so many francs. In order to compare values which are thus differently expressed in the two countries, it will be sufficiently exact if we consider that 25 francs are equivalent to 1*l.* sterling. When,



therefore, an English merchant sells 100*l.* worth of goods to a French merchant, the former would receive a bill drawn upon the French merchant for 2500 francs, and not, as we have above supposed, for 100*l.* If imports from France to England exceed in value the exports from England to France, the exchange will be against England, and in favour of France. If this be the case, England will have to make larger payments to France than France has to England, and there will consequently be in England a greater demand for bills drawn on France than there exists in France for bills drawn on England. Consequently, a bill drawn on France for 2500 francs will in England be worth more than 100*l.*; on the other hand, a bill on England for 100*l.* would in France be worth less than 2500 francs. It is manifest that the premium which bills drawn on France realise in England, cannot exceed the cost of transmitting specie from the one country to the other. If the cost of this transmission should be two per cent., then, under the circumstances just assumed, it is quite reasonable to conclude that a bill upon France for 2500 francs would in England sell for 101*l.* 10*s.*, and that a bill upon England for 100*l.* would in France only sell for 2463 francs.

It should moreover be borne in mind, that when the exchange is against one country and in favour of another, specie must not only be sent from the former to the latter country, but the money of the former country will also be depreciated in value, when compared with the money of the latter country.

When the exchange is against England, suppose that a person who intends to travel in France takes 100*l.* to some money exchange office in London, for the purpose of having it changed into French coin. When the exchange is at par, 25 francs are equivalent in value to 1*l.* sterling. The question now arises, How many francs will be given at a money exchange office in London for 100*l.*, when the exchange is against England? Since the exchange is against England, English money must be sent to France to adjust the trade between the two countries, but no French money will for a similar purpose have to be sent to England. The money exchange offices will therefore be compelled specially to obtain French money from France; they must

*In this case the money of one country may be depreciated relatively to that of the other.*

BOOK III.  
CH. IX.

*Meaning  
of favour-  
able ex-  
change in  
this case.*

therefore be compensated for the cost of importing this French coin, and consequently 1*l.* sterling of English money will exchange for less than its equivalent value in French money, namely 25 francs. English money, therefore, would be depreciated in value, compared with French money, and this depreciation would not be avoided, even if the English money were exchanged for French money in Paris, instead of in London. The exchange being against England, English money is sent from England to France; hence there is a surplus of English money in France, or, in other words, English money is at a discount when compared with French money.

If, on the other hand, the exchange is in favour of England, the English money will be comparatively of greater value than French money, and 1*l.* sterling will exchange for more than 25 francs. Suppose that a person wishing to exchange English money for French money goes to an exchange office in London. A favourable exchange implies that there will be a surplus of French money in England, because French money has been sent to England in order to adjust the trade between the two countries. People therefore will be anxious to dispose of this French money, for it will not in England perform the ordinary functions of money. English tradesmen will not accept 3 francs instead of half-a-crown, cab fares cannot be paid in French coin, and a person in London with only French money in his pocket would be subject to as many inconveniences as if a traveller were in Paris with only English money in his pocket. Those persons, therefore, in England to whom French money has been sent to pay for the excess of exports to that country, will be anxious to convert this French money into English money. This French money cannot be sent back to France, without involving the cost of transmission. A considerable loss will also be incurred if the other alternative is adopted, and the French money which is in England is melted in order to be sold as bullion. These considerations show that French money must be depreciated, or, in other words, when foreign exchanges are technically said to be against a country, the money of the country will be depreciated, when compared with the money of those countries with regard to which the favourable exchange is supposed to exist.

From these remarks it would appear, that when two countries such as France and England are considered, the bills of exchange which are drawn upon either of these countries cannot either rise to a greater premium, or fall to a greater discount, than that which would be represented by the cost of transmitting the precious metals from the one country to the other. Some facts, however, may be recalled, which seem to contradict this conclusion. For instance, it is well known, that when the news of Napoleon's return from Elba was first brought to England, the price of bills drawn upon foreign countries suddenly rose ten per cent. Mr Mill has remarked, "Of course this premium was not a mere equivalent for cost of carriage, since the freight of such an article as gold, even with the addition of war insurance, could never have amounted to so much. This great price was an equivalent, not for the difficulty of sending gold, but for the anticipated difficulty of procuring it to send; the expectation being, that there would be such immense remittances to the Continent in subsidies, and for the support of armies, as would press hard on the stock of bullion in the country."

When the exchange is against any particular country, or, in other words, when bills upon foreign countries are selling at a premium, it may be thought that this premium must be always exactly equivalent to the cost of transmitting the precious metals. It may be urged that an unfavourable exchange is caused by the necessity of transmitting specie, in order to pay for an excess of imports over exports; therefore the competition of merchants amongst each other to purchase foreign bills of exchange, in order to avoid the cost of transmitting specie, will force all foreign bills to a premium equivalent to this cost of transmitting specie. If, for instance, the cost of sending specie from England to France were two per cent., an English merchant who had payments to make to France would gain some profit, if he paid as high a premium as 1*l*. 19*s*. per cent. for bills drawn on France. It would therefore seem to be proved, that when the exchange is unfavourable, bills must be at a premium equivalent to the cost of transmitting specie. There are, however, other considerations which modify this conclusion, and which also explain the fact, that when the exchange is unfavour-

BOOK III.  
CH. IX.

*Causes which may increase the premium or discount on bills of exchange beyond the cost of transmitting gold.*

*The statement that this premium is equal to the cost of transmitting gold must be modified,*

BOOK III.  
CH. IX.

*because  
the actual  
transmission  
of  
specie may  
be avoided,*

*and an  
unfavour-  
able ex-  
change  
exerts a  
direct ten-  
dency to  
correct  
itself.*

able, and bills at a premium, this premium does not remain constant, but varies from day to day.

It is no doubt true, that bills would invariably be at a premium approximating to the cost of transmitting specie, if it was always necessary to export specie, when the foreign exchanges happened to be unfavourable to a country. But it must be borne in mind, that the balance which a country has to discharge, when the value of its imports exceeds the value of its exports, may often be liquidated without the transmission of any specie. For instance, foreign commerce is liable to constant fluctuations; various circumstances may at any time occur which may increase a country's exports or diminish its imports; thus an exchange which is unfavourable may be rapidly converted into one which is favourable. If such an event is anticipated, those who have payments to make in foreign countries will delay transmitting specie, or, at any rate, will refuse to pay for foreign bills a premium equivalent to the cost of transmitting specie. Such a delay may be obtained by various arrangements; for instance, a person whose credit is good can always readily renew his bills at the current rate of interest.

There are, moreover, valid reasons for assuming that an unfavourable exchange cannot be of long continuance; for specie cannot be withdrawn from the currency of a country, to pay for an excess of imports over exports, without increasing the value of gold in that country, or, in other words, without reducing general prices. But a reduction of general prices at once exerts a tendency to prevent the export of specie. If general prices are lowered in a country, the exports of the country will be increased, because it will be more profitable to sell commodities in foreign countries. Under the same circumstances, the imports will be diminished, because foreign countries will not export so large a quantity of commodities to this particular country, when generally lower prices prevail in it. It therefore appears, that an unfavourable exchange cannot long continue, if the specie which is transmitted to foreign countries is supplied from the money of the country. It has however, been already stated, that the precious metals are often transmitted from one country to another, as an ordinary commodity of commerce. Such an export of specie

can scarcely be said to denote an unfavourable exchange, since the specie is not withdrawn from the money of a country, and no effect is consequently exerted on general prices. Australia, for instance, has often sent in a single year 10,000,000*l.* of gold to England, but this export of gold from Australia does not show that the foreign exchanges are unfavourable with regard to that country; this gold is simply exported from Australia as an ordinary commodity of commerce.

BOOK III.  
CH. IX.

## CHAPTER X.

### THE FUNCTIONS OF CREDIT.

**I**N Political Economy the very name of Credit is ominous of confused and never-ending discussion. Questions concerning credit may be regarded as the polemics of this science; for the subject of currency is intimately connected with credit. The currency has always been a popular topic for much vague theorising; it seems to be not unfrequently thought that out of the intricacies of the currency problem some specific may be evolved which will spontaneously create wealth, and which will provide an adequate remedy for every national disaster. It will, however, be perceived that the functions performed by credit and the influence it exerts on currency admit of a very simple explanation.

Credit signifies the relation which exists between the borrower and lender; credit consequently implies trust, or confidence. One individual, A, may have a larger amount of wealth than he wishes either to consume or to employ as capital. Another individual, B, may be greatly in want of this wealth, desiring perhaps a greater amount of capital to assist the industry in which he is engaged; B therefore says to A, If you will lend me your wealth, I will pay you a certain annual sum for the use of it, and you may depend upon me to repay it to you at the expiration of a certain time. If A has sufficient confidence in B's solvency and is satisfied with the terms which are offered, A will lend the wealth to B. In other words, B calls his credit into action to borrow wealth from another individual, A; credit therefore simply signifies borrowing and lending. The borrowing does not always take place in the precise

*Credit implies borrowing and lending.*

manner just described; there is however no difference in principle, although there may be some difference in the mode in which the transaction is conducted.

For instance, it is customary, when wealth is lent, that the loan should be made in money. If, in the above example, the surplus wealth which A is supposed to possess consists of a stock of wheat, he will not, as a general rule, lend this wealth in the form of wheat, for he will almost invariably sell the wheat and then lend the money. Such a course is much more convenient, since a substance which is uniform in its value is always chosen to perform the functions of money. When money is lent, both the borrower and lender very accurately know how much they have respectively to pay and receive. But if, instead of money, any other kind of wealth, such as wheat, was lent, great risk would be incurred both by the borrower and lender; because if the wheat were to be repaid at any particular time, it might then be only half as valuable, or, on the other hand, perhaps far more valuable than it was at the time when it was borrowed.

If it is borne in mind that credit is a synonymous expression for borrowing and lending, it will be readily perceived that various circumstances are implied in the existence of credit. In the first place, there can be no credit if a man has not confidence in the person to whom he lends. No one would be willing to lend his wealth, unless he believed that he who borrowed it would repay it. The more confident a man is in this belief the less remuneration will he require for the money which he lends. If A lends two sums of 100*l.* to B and C respectively, and if he places much greater faith in B's honesty and ability to pay than he does in C's, C will be compelled to pay a much greater sum for the use of this loan than B. It need scarcely be said that the annual sum which is paid for the use of borrowed money is termed the rate of interest. Therefore two individuals borrowing at the same time and from the same person, pay a rate of interest which is determined by the confidence which he who lends the money may feel that it will be repaid; or, in other words, by the faith which he places in the solvency of those to whom the money is lent. Since B is supposed to be able to obtain a loan at a lower rate of

BOOK III.  
CH. I.

*Not necessarily money.*

*Circumstances affecting credit.*

BOOK III.  
CH. X.

*Credit is  
the power  
to borrow  
wealth.*

*This power  
varies in  
individu-  
als*

*and in  
countries.*

interest than C, B's credit is for that reason said to be better than C's; hence, credit should be defined as the power to borrow wealth. This definition is more precise than the meaning given above, but not inconsistent with it. Credit being defined as the relation between the borrower and lender, credit will be good when this relation is easily produced, i.e. when money is easily lent or borrowed; or credit will be abundant when there is a large number of persons ready to enter into the relation on both sides, and a large amount of wealth ready to be lent and borrowed.

It has been said that C's credit would not be so good as B's, if C were compelled to pay a higher rate of interest for money borrowed than B. But it must be remembered that B and C are supposed to borrow money in the same place, and in the same country. If B borrowed in England and C in India, C would be compelled to pay a higher rate of interest than B, although C's credit, so far as depended upon personal character and means, might be quite as good as B's. It would in fact be necessary for C to pay this higher rate of interest, not because his own credit was not good, but because a generally higher rate of interest prevails in India than in England. The circumstances which determine whether the credit of any particular country is good or bad are very similar to those on which depends the credit of individuals. If the government of a country is unsettled, a revolution may quickly displace the ruling dynasty, and the obligation incurred by one government may be disavowed by the next which takes its place. In such a case as this those who lend money must be compensated for the increased risk which is incurred. States, either through dishonesty or through inability to pay, have sometimes repudiated their obligations. Those who subscribe to government loans carefully examine the character and the financial position of the states to whom the money is lent. The result of this examination is shown in the price of foreign stocks, for the prices of these stocks form a measure of the credit of different countries. Russia can borrow money at five per cent., whereas Spain cannot borrow under seven per cent., and the credit of Turkey is so low, in consequence of her inability to pay the interest on her existing loans, that she is



now unable to borrow, and her 5 per cent. stock stands at a nominal price of 12½.

Hence the meaning to be attributed to the word credit, is the power to borrow, whether the credit of an individual, or the credit of a state is spoken of. It may perhaps excite surprise that so simple a signification is given to the word credit, for it is often spoken of in a most mysterious manner. Thus some political economists assert that the principles of this science can only be unfolded to those who properly appreciate the great maxim, that credit is capital. If the true nature of credit is borne in mind, it will be at once perceived that this maxim instead of being pregnant with meaning is a striking indication of confusion of thought and language. The fundamental idea attached to capital is, that it is a fund from which to feed, and otherwise to support labourers. Credit is a power to borrow, and surely labourers cannot be fed on a power to borrow. The power to borrow, if exercised, may obtain capital. Just in the same way, the muscles of a man's arm will, if required, lift fifty pounds; but it would be absurd to say, that his muscles were fifty pounds.

We shall proceed to point out the real assistance which credit lends to the production of wealth; in doing so, it will be shown that if there were no credit much less wealth would be saved, and a great portion of that which is saved would cease to be productively employed. Political economists are not, however, justified in affirming that credit is capital, although it may be shown that the existence of credit materially aids the production and distribution of wealth. If there were no credit, all the capital of the country must be applied to industry by those individuals who actually possess it. A person who saves wealth, but does not wish to employ it upon any industrial purposes, would be prevented using it as capital, if he were debarred from lending this wealth to those who would be willing to devote it to the further production of wealth. The amount of wealth which is in this manner saved by those who wish others to employ it as capital is enormously great. Some conception of the amount may be formed from glancing over the accounts of such institutions as the London and Westminster Bank, which it must

BOOK III.  
CH. X.

*Confused  
notion that  
credit is  
capital.*

*Credit  
aids the  
production  
of wealth,  
by increas-  
ing the  
accumula-  
tion and  
profitable  
applica-  
tion of  
capital.*

BOOK III.  
CH. X.

be remembered is only one out of the many great London Banks.<sup>1</sup> The average amount of the deposits which are held by this bank exceeds 24,000,000*l*. This vast amount of wealth has been collected from a multitude of depositors, who are in very different positions in society, and who are engaged in the most varied occupations. Experience teaches, that even the most prudently managed bank need not keep in the form of money an amount exceeding one-third of the sums deposited with it, in order to meet the every-day demands which are made upon the bank by those who have deposited money. If, therefore, a bank has deposit accounts amounting to 24,000,000*l*., at least 16,000,000*l*. of this sum may be applied by the bank to productive purposes. The profits of a banking establishment mainly arise from such an application of their deposits, for the bank either employs the money directly as capital in carrying out some industrial work from which profit is realised; or, as is generally the case, the bank lends the money to others, who use it as capital, and who pay a certain rate of interest for the loans thus received from the bank. But suppose that either from the instability of the Government, from a generally low state of commercial morality, or from any other cause, the credit of this country should be materially damaged. Confidence in banks and other similar institutions would thus be lost. Those who now deposit in banks the money which they do not require for their immediate wants, would then cease to do so, since they would be prompted to hoard it for the sake of security. Some idea may be formed of the extent to which such an event would affect the capital of the country, when it is remembered that the credit of the London and Westminster Bank enables it to gather together 24,000,000*l*. in deposit accounts; of this amount a sum equivalent to at least 16,000,000*l*. is employed as capital. The foregoing remarks suggest one of the many modes by which credit economises the resources of the country. These deposit accounts represent the sums which tradesmen and others keep to meet their current expenses; for

*Method by which banks increase the effective resources of the country.*

<sup>1</sup> The total deposits in the London joint-stock banks on the 31st Dec. 1882 amounted to 127,144,000*l*.; and it must be borne in mind that many of the largest banks in London are private institutions and their accounts are not published.

instance, a person who receives an official salary of 1000*l.* does not wish to invest it, because he will have to live upon it during the year. He would also be afraid to keep so large a sum in his own house. He therefore deposits it in a bank, and gradually draws upon it as he requires it. In this manner, money which would not otherwise be invested as capital is collected by banks, and a large proportion of the aggregate sum which is so collected is productively employed as capital.

Again, many persons who accumulate wealth would not do so if they were obliged to engage in business themselves, and to superintend the industry which may be supported by the wealth which they save. An individual, A, may have an annual income of 2000*l.* One thousand pounds a year suffices for his ordinary expenditure; he is therefore glad to save the remaining 1000*l.*, if he can profitably invest it. But very probably he does not wish to engage in any industry himself, or if he is already so engaged, he may not wish to extend his operations by bringing more capital into his business. He will therefore be anxious to lend the 1000*l.* which he is disposed to save to some one whom he can trust, and who will pay him interest for the use of it. If it is assumed that the money is lent to B, B probably desires to borrow it, because he thinks that he can so advantageously employ this sum as capital, that there will be a profit remaining to him, after he has paid interest for the use of the loan. If, however, A placed no confidence either in B's credit or the credit of any other individual, he would not lend the 1000*l.* he had saved, and therefore the money would not be employed as capital, unless A chose so to employ it himself. It has however been supposed that he is unwilling to do this; in all probability, therefore, he would spend the 1000*l.*, if the absence of credit prevented him from finding a profitable investment for it. The consequence of this would be, that the industry of the country would be seriously affected, since the accumulation of capital would be impeded.

There is another mode in which the existence of credit most powerfully assists the production of wealth. It has been frequently remarked, that nothing contributes more powerfully to promote the wealth of a nation than its

*Accumulated wealth is made useful by credit.*

*Undertakings too great for individual resources*

## BOOK III.

## CH. X.

*are carried  
out by  
credit.*

public works. The railways, docks, canals, and roads of this country are not only the surest signs of its wealth, but have also been the chief instruments of its industrial greatness. Such an undertaking as a railway, however, requires an amount of capital for its construction too large to be supplied by one individual. Such works, therefore, are carried out by a company, who collect the requisite amount of capital from a great number of individuals. These individuals would not entrust their capital to the company, unless they could place confidence in it, or, in other words, unless its credit was good. Moreover, not only must the personal credit of the directors of the company inspire confidence, but it is also necessary that the credit of the country in which the works are carried out should stand high; because great risk will be incurred by sinking large sums of money in works which would be easily destroyed if the government was in a state of anarchy, and property consequently insecure.

*Thus  
credit  
creates  
capital.*

Enough has now been said to show, that credit as powerfully as any other agent contributes to the production and accumulation of wealth. Although credit is not capital, yet a great portion of the capital of each country is undoubtedly due to the existence of credit. The higher the credit of a community is, the more completely can every particle of wealth which is saved be economised. Credit, in fact, enables the wealth which is saved to be immediately applied to the most productive purposes.

Having in this chapter described the influence exerted by credit on the production of wealth, we shall in the next chapter discuss the manner in which the prices of commodities are affected by credit.

## CHAPTER XI.

### THE INFLUENCE OF CREDIT ON PRICES.

WHEN an individual, B, uses his credit in borrowing from A a certain sum of money, it is natural to suppose that A will require some written acknowledgment of B's liability to him. The written acknowledgment of such indebtedness may be given in many different forms, and these various forms may be regarded as the tangible evidence of the fact, that credit has been given and taken. It will be well to describe some of these forms in detail.

We will commence with a bill of exchange; some remarks have already been made upon this instrument of credit. It is well known that the wholesale transactions of commerce are seldom carried on by ready money. If A sells B a cargo of coal for 1000*l.*, A receives an acknowledgment of the debt due to him in the form of a bill; this bill is a written promise<sup>1</sup>, that B will pay a certain sum to A on a particular day, and in the bill it is stated what consideration has been given for the debt which has been incurred. The time which has to elapse before the bill falls due is a matter of previous arrangement between A and B, but upon this point different customs prevail in various trades, which are very uniformly observed. When, for instance, a draper purchases goods of a warehouseman, a bill for three months is almost always given; but in the book trade it is customary to give a bill for six months.

A bill of exchange affords a convenient instrument for facilitating credit. If in the above transaction B, who is supposed to purchase the coals, should be a stranger to A, it is probable that A may require some additional security

<sup>1</sup> The promise is almost invariably given in the form of a written order to a banker, who becomes the medium of payment.

BOOK III.  
CH. XI.

*Different  
forms of  
credit.*

*Bills of  
exchange.*

*They are  
a convenient form  
of credit.*

BOOK III.  
CH. XI.

besides the written promise of B to discharge the debt. Some bank with which B does business may have perfect confidence in him. B will go to this bank and say, A is not satisfied with my promise to pay, but he no doubt would be if a public institution like yours would give him some testimony as to my solvency. The bank grants this request by placing its name upon the back of the bill, which is technically called endorsing the bill. This endorsement makes the bank liable to pay the bill in the event of B refusing to do so; A then accepts the bill, being satisfied with this additional security. Now A may perhaps be in want of ready money, and does not wish to wait until the bill falls due. He therefore gets this bill discounted; discounting the bill means selling the bill for ready money. If the person who discounts this bill for A is satisfied with the security which is provided by the two endorsements which are already on the bill, he accepts the bill without any further endorsement; but if he is not satisfied, he may also require the endorsement of A, the person from whom he purchases the bill. A bill of exchange may be thus bought and sold any number of times before it falls due, and perhaps each time it is so bought and sold it receives an additional endorsement. Thus it not unfrequently happens that before a bill is finally presented for payment it is almost completely covered with endorsements.

*Bank notes  
and  
cheques*

When credit is given by banks, it usually assumes the form either of bank notes or cheques. The distinction between a bank note and a bill of exchange is this: a bank note is a written promise to pay a certain sum whenever it may be demanded; whereas a bill of exchange is a written promise to pay a sum at a certain date, which is stated on the bill. Moreover, in almost every country certain privileges are given to bank notes which are not possessed by any other instrument of credit. Almost every country has a State bank, the bank notes from which are generally made a legal tender. In this country, any debt can be discharged by paying the sum in Bank of England notes; and, similarly, in France a debt can be discharged by paying the amount in notes issued by the Bank of France. But the notes which are issued by private banks are not a legal tender. State banks are

*as issued  
by State  
banks*

subject to certain restrictions, which vary in different countries. Our own bank is regulated by the Bank Charter Act, the provisions of which we shall hereafter explain. It is only necessary here to state, that this Act provides security that the Bank of England shall not issue notes beyond a certain amount, unless it possesses a corresponding quantity of gold to provide for their payment. Although a Bank of England note is as legal a tender as gold coin, yet our currency is said to be convertible, because the Bank of England is bound, if the demand is made upon it, to give gold in exchange for its notes. But the currencies of some other countries are inconvertible, and when this is the case, no one has a right to demand coin in exchange for bank notes, although they may be a legal tender.

Besides the notes which are issued by the Bank of England, those private banking firms which existed previous to 1844 are allowed to issue notes under certain conditions. A moment's consideration will show, that a bank note, whether issued by a State establishment or by a private firm, is simply a convenient form for bringing into practical use the credit which may be possessed by the bank. All those who place perfect confidence in the solvency of a particular banker will be willing to accept his notes. A banker, therefore, whose credit is good, can circulate a great number of his notes in his own neighbourhood, his notes being willingly accepted by those to whom he is known. Such notes, however, are not convenient for payments which have to be made at a distance, to those to whom the banker is a stranger. The notes of private bankers are never made a legal tender, and if the notes are presented for payment at the bank from which they are issued, it is compulsory that either coin, or Bank of England notes, should be given in exchange for them. It is, however, manifestly to the advantage of a banker to issue notes; for suppose 60,000*l.* of these notes are kept in circulation, it is ascertained, by experience, that an amount of legal tender equivalent in value to one-third of the notes issued will be sufficient, if kept as a reserve, to meet all the notes which are presented for payment. A banker, therefore, whose notes circulate to the extent of 60,000*l.*, has 40,000*l.* at his free disposal, to place in some profitable investment.

*or private  
banks.*

## BOOK III.

## CH. XI.

*Use of  
cheques.*

It is hardly necessary to describe a cheque. Individuals deposit money with bankers for purposes of convenience or safety, and of course they can withdraw any portion of this money when they have a payment to make. But if A wants to pay B 1000*l.*, A does not first withdraw 1000*l.* from his bank and pay the amount to B, who would then probably deposit the amount received, in the bank with which he might happen to do business. A much more convenient course is adopted: A, instead of paying the money to B, gives him a cheque, which is simply an instruction to A's banker that the amount stated in the cheque should be paid to B when he demands it. A is thus saved the trouble of withdrawing money from his bank; B is also saved the trouble of sending so much money to his bank, for now he has only to transmit the cheque to his banker, who will place the amount to his account, B's banker taking the trouble of getting the cheque paid by A's banker. The trouble of doing this, however, is very small, for cheques will be drawn upon B's banker, and in this manner the cheques drawn upon one bank are exchanged for those drawn upon another. A similar exchange is effected in regard to bills. This exchange is daily carried on in London, at an establishment called the Clearing House. The amount of bills and cheques thus exchanged is so enormous that it frequently reaches more than 150,000,000*l.* in one week. No gold whatever is required in settling the accounts between the various banks. When a balance remains in favour of, or against, a particular bank, the amount is placed to the credit or debit of this bank in the books of the Bank of England. Another form of credit, the telegraph draft, has lately come so much into use that it has probably led to some diminution in the amount of bills of exchange issued. These telegraph drafts are orders sent by telegraph.

*Credit is  
to some ex-  
tent a sub-  
stitute for  
money.*

The chief forms which credit assumes have now been described. It will be perceived that bills of exchange, bank notes, cheques, and telegraph drafts perform many of the functions of money. Credit, therefore, considered in this aspect, may be regarded in a certain degree as a substitute for money. We are thus led to the main subject of inquiry in this chapter, which proposes to investigate the influence produced by credit on prices.



We will commence this investigation by explaining the manner in which bills of exchange, bank notes, and cheques respectively perform the functions of money.

Although, in the wholesale transactions of commerce, commodities are almost invariably sold for money, yet it very rarely happens that any money is interchanged between the buyer and seller. In such transactions, bills of exchange provide a ready substitute for money; it also frequently happens that the same bill of exchange supplies a substitute for money in many transactions besides the original one which first called the bill into existence. We have already said that bills are often almost covered with endorsements before they are finally presented for payment. If, for instance, B receives from A a bill for 1000*l.*, B may endorse this bill, and with it purchase commodities to the value of 1000*l.* from C. C in a similar way may again endorse the bill, and with it purchase goods from D, and the same process may be continued any number of times. But when this is done, it is manifest that the bill is as efficient in its purchasing power, or, in other words, exerts the same influence in buying and selling, as if A paid B a thousand sovereigns instead of the bill, and B purchased goods from C with this money instead of paying C for the goods by means of the bill. As long therefore as this bill is kept in circulation, it provides a substitute for an equivalent amount of money. If bills were not used, and if no other substitute for money were provided, it is manifest that, when commodities were bought and sold for money, the money must be forthcoming. In discussing the laws of price, the principle was established, that general prices depend upon the quantity of money in circulation compared with the wealth which is bought and sold with money, and also upon the frequency with which this wealth is bought and sold before it is consumed. If more wealth is produced, and an increased quantity of wealth is also bought and sold for money, general prices must decline unless a larger quantity of money is brought into circulation. Suppose, for instance, that the production of every kind of wealth is doubled in this country, that every one doubles his purchases of commodities, and, at the same time, there is no increase in the amount of money in circulation. Upon this hypothesis, each individual, al-

BOOK III.  
CH. XI.

*The functions of money may be performed by bills of exchange.*

*As wealth increases, prices tend to decline; but this tendency is stopped by the use of bills.*

BOOK III.  
CH. XI.

though he is supposed to purchase twice as much of every commodity as he did before, will only possess the same amount of money with which to effect these purchases. He will, therefore, be only able to give the same amount of money for double the quantity of each commodity he purchases; but this is tantamount to saying that general prices have declined one-half. In fact, if there should be an increased production of wealth, if there should be more buying and selling, or if any other circumstance should occur the effect of which is to require the circulation of a larger amount of money, the value of money must rise; or, in other words, general prices must decline, unless an increased supply of money is forthcoming, so that a larger amount may be brought into circulation. When buying and selling are effected by bills of exchange, the necessity for money is as completely dispensed with as if the transaction was carried on by barter; those trading transactions therefore in which bills of exchange are employed may be almost indefinitely extended without rendering it necessary to bring an increased amount of money into circulation.

*If bills were not used, the money in circulation must increase, or prices decline;*

A consideration of some of the consequences which would ensue if bills of exchange did not exist, will perhaps more plainly indicate the influence which they exert upon prices. Suppose that all the commodities which are now bought and sold by means of bills of exchange were paid for by money; a largely increased amount of money would be required to be brought into circulation. If this additional supply were not forthcoming, money would rise in value, or, in other words, general prices would decline. Hence bills of exchange, in many classes of transactions, are a convenient and complete substitute for money; consequently, if it were not for bills of exchange, one of two things must happen. Either the money in circulation must be increased, or the money already in circulation must become more valuable, since a greater amount of money will be required to carry on the trade and commerce of the country. But to say that money becomes more valuable is equivalent to stating that general prices decline.

*hence prices are not affected by bills,*

It therefore appears that we cannot, by a simple negative or affirmative, answer the question whether an increased issue of bills of exchange affects prices. All that can be

said is this—If the buying and selling now carried on by bills of exchange were effected by money, then one of two things must occur—either more money must be brought into circulation, or general prices must decline. The influence, however, which is exerted upon prices by bills of exchange is not due to anything peculiar in the nature or form of a bill of exchange; it is not the bill which produces the influence, but the influence is produced by the credit which is given. The bill is not this credit, but is simply a testimony or record of its existence. The truth of this assertion is illustrated by the fact that buying and selling may be carried on by book credits, instead of by bills of exchange. Suppose A sells B a cargo of coals for 1000*l.*; A, instead of receiving a bill of exchange from B, may debit him with the amount in his ledger. Let it be also assumed that A buys a quantity of coal for 1000*l.* from a third person C, and that C again buys 1000*l.* worth of timber from B. Then A appears a debtor for 1000*l.* in C's ledger, and C appears a debtor for 1000*l.* in B's ledger. Payment will therefore be made by cancelling each debt, for A will cancel B's debt, if C will cancel A's, and this of course C will be willing to do if B will cancel C's. In this case, although the buying and selling are nominally made for money, yet the resort to book credits enables money to be as completely dispensed with as if bills of exchange had been used. It is therefore credit, and not the particular form which credit may assume, that enables money to be dispensed with, and consequently produces an influence on prices.

Bills of exchange are, however, more potent in their influence on prices than book credits, simply because bills of exchange facilitate credit, and call a vast amount of credit into action which would never be given if book credits were always adopted instead of bills of exchange. For instance, if A receives from B a bill of exchange for goods sold, then A has the power of increasing his credit by means of this bill, for he can actually convert the bill into money, or he can purchase commodities with it; but if A, instead of receiving a bill from B, simply has a register of his debt in his ledger, he would have no power of buying commodities by means of this book credit.

Although in many transactions bills of exchange provide

BOOK III.  
CH. XI.

but by the credit which they imply.

The same effect might be produced by book credits,

but not to so great a degree.

Bank notes

## BOOK III.

## CH. XI.

*are a still  
more  
powerful  
instrument  
of credit.*

a perfect substitute for money, yet bank notes seem more completely to perform all the functions of money; we will therefore next proceed to inquire into the influence exerted upon prices by credit when in the form of bank notes. A bank note is a far more complete substitute for money than a bill of exchange, because a bank note is used in those cases in which money would necessarily be employed, if bank notes did not provide a substitute. The transactions, however, which are effected by bills of exchange might, as we have seen, be often performed by book credits. Bills of exchange are seldom used, except in the wholesale transactions of trade and commerce, but bank notes form a part of the ready money which a man keeps in his possession, to supply the ordinary wants of life. If, therefore, an amount of coin equivalent to one-third of the bank notes issued is kept by the bankers as a reserve, it is manifest that each bank note which is in circulation enables an amount of money to be dispensed with equivalent in value to two-thirds of the sum which the note represents. The bank note circulation of Great Britain varies between 30,000,000*l.* and 32,000,000*l.* If it is 30,000,000*l.* sterling, it may be approximately said that, in consequence of bank notes, a substitute is provided for 20,000,000*l.* of coined money. The same proposition may be expressed in different words, by saying that, if no bank notes were in circulation, 20,000,000*l.* more money would be required. If this additional amount were not forthcoming money would become scarcer, or, in other words, general prices would decline.

*The effect  
of largely  
increasing  
the bank  
note circu-  
lation  
would vary  
under dif-  
ferent  
circum-  
stances.*

It may be asked, What would be the effect upon prices if the bank note circulation were suddenly increased? This suggests one of the most disputed of the currency questions. As previously stated, the bank note circulation of England is placed under various restrictions, the nature of which will be presently detailed. The purpose we have in view, at this stage of our inquiry, is to investigate the effect which would be produced on prices if the bank note circulation were largely increased by a removal of all restrictions which now limit its amount. We conceive that the effect which would be produced entirely depends upon circumstances. Let it be supposed that there is no change in the population, or in the commercial condition of the

country. If, under these circumstances, an increased issue of notes were added to the money circulation of the country, prices would manifestly rise, because there would be now more money in circulation to carry on the same amount of buying and selling which was previously conducted by a smaller amount of money. If, however, the additional notes which are issued simply cause a corresponding amount of bullion to be withdrawn from circulation, it is manifest that no effect is produced on prices. The only result is, that the trade of the country is carried on more economically, because these notes, which are simply pieces of paper of no intrinsic value, perform with equal efficiency all the purposes which were previously fulfilled by the gold, now supposed to be dispensed with. Consequently the economy of this substitution is evident; gold is a valuable commodity, requiring much labour and capital to obtain it. We therefore have the following principles to guide us in an inquiry into the effects of a bank note circulation.

1st. If bank notes simply occupy in the monetary circulation of the country the place of a corresponding value of bullion, these notes produce no effect on prices.

2nd. If it can be shown that, either by the repeal of the Bank Charter Act, or by any other cause, the bank note circulation of the country can be increased without withdrawing from circulation a corresponding amount of coin, it is manifest that the aggregate money circulating in a country will be augmented, and general prices will, as a consequence, undoubtedly rise.

Although a cheque is not so complete a substitute for money as a bank note, yet cheques often provide facilities for dispensing with money which are possessed by no other instrument of credit, except a bank note. It has already been explained in what manner cheques render the employment of money unnecessary. As an example, it has been stated that the returns of the Clearing House show that payments to the amount of more than 150,000,000*l.* a week are made by means of cheques, without requiring the use of any coin whatever. There can be no doubt that, if it were not for cheques, the great majority of these payments must be made with money; in this case the money circulation of the country would have to be

*The important question is whether they displace an equal amount of bullion, or increase the whole circulation.*

*Cheques are a less complete substitute for money.*

BOOK III.  
CH. XI.

*Credit  
exerts a  
more  
powerful  
influence  
on prices  
by increas-  
ing the  
purchas-  
ing power  
of the  
country.*

*Variations  
in price  
are pro-  
duced by  
credit,*

increased to a corresponding amount. If it were not so increased, a greater amount of buying and selling would have to be performed by the money already in circulation. This is equivalent to saying that general prices would decline.

We have now investigated one part of the influence which is exerted by credit on prices: it must however be borne in mind that credit exerts upon prices another distinct kind of influence, which as yet has been scarcely noticed. Hitherto, in this chapter, those effects on prices have alone been noticed which are due to the circumstance that credit supplies, when in the form of bank notes, bills of exchange, or cheques, a substitute for money, more or less complete. But by far the most powerful influence exerted by credit on prices is caused by increasing the purchasing power of the country. If it were not for credit, the demand for commodities would frequently be much less than it is. In fact, when credit is freely given, the demand for a commodity may increase without any assignable limits; when the demand is so stimulated, prices may temporarily rise in a very striking manner. We lay particular stress upon the word 'temporarily,' because as frequently stated the price of all commodities, except those whose supply is absolutely limited, must always in the long run be regulated by their cost of production. But although cost of production determines a point towards which the prices of commodities must ultimately have a tendency to approach, yet the prices of commodities may temporarily either very much fall short of their cost of production, or be greatly in excess of it. These variations in price are due to sudden fluctuations in the demand and supply of any particular commodity; nothing exerts so powerful an influence in producing these fluctuations as an extended system of credit. If no credit were given, and if everything were consequently paid for by money directly it was purchased, there would be little speculation; commodities would generally be bought as they were wanted; everything connected with trade would be regular and uniform, and there would be no great variations in the demand. This regularity in demand exists with regard to those commodities which are not, from their nature, bought upon credit for speculative purposes, and the price

of such commodities never deviates much from the cost of producing them.

Bread is one of these commodities; it is bought to be immediately consumed, and no one uses his credit to accumulate large stores of bread; hence the price of bread is always regulated by its immediate cost of production. The price of bread of the same quality is uniform throughout large towns and districts, and if the cost of producing a loaf of bread is slightly lessened by a fall of 2s. a quarter in the price of wheat, the effect of this is shown by a corresponding fall in the price of bread. On the other hand, many commodities, such as wheat, are largely bought on credit for speculative purposes, and are consequently subject to the greatest fluctuations in the demand. Suppose some event occurs which forebodes a coming war; merchants may then think that, if the war takes place, the foreign supplies of various commodities will be greatly diminished; they therefore at once commence to make speculative purchases. Every man can use his credit as a purchasing power; if he exerts his credit to purchase a commodity, he of course assists in increasing the demand for it. When the first rumours arose in 1854 of coming hostilities with Russia, large speculative purchases of tallow were made, because it was thought that all importations of that commodity from Russia would be stopped. The merchants who speculated in tallow employed their credit; they did not withdraw their capital from profitable undertakings in which it might be invested, for the purpose of purchasing this tallow; they simply employed their credit in the form of bills of exchange, and paid for the tallow with these bills. They no doubt intended, either to re-sell the tallow before the bills fell due, or, if they did not do this, they would probably pay a certain sum for permission to renew the bills from time to time. If a commodity in which speculation thus takes place does not rise in price as anticipated, many of the speculators are sure to be unable to meet their credit engagements, and a commercial crisis ensues. Each commercial crisis affords most striking instances of the wonderful extent of an individual's purchasing power, when he brings his credit into full activity. Mr Mill refers to a very remarkable speculation in the tea trade,

BOOK III.  
CH. XI.

*and are great in articles bought for speculative purposes.*

*Example of tallow in the Russian war.*

BOOK III.  
CH. XI.*Tea in the  
war with  
China.*

which is described in Tooke's 'History of Prices.' We will give a brief summary of some of the facts, which are very instructive.

It was expected, in consequence of our dispute with China in 1839, that there would be a rise in the price of tea. Many retail grocers were therefore extremely anxious to lay in a stock of tea, and they accordingly commenced making speculative purchases. One grocer is particularly mentioned who had a capital of 1200*l.*, all of which was locked up in his business. If, therefore, he had wished to purchase tea and pay for it with money in his possession, he probably would not have been able to lay out more than 100*l.* But he adopted a different course, and employed his credit to its full extent as a purchasing power. He ordered chests of tea from every wholesale tea merchant with whom he was accustomed to deal; they did not think of consulting each other, and had therefore every reason for supposing that the tea which he thus purchased was required for the legitimate purposes of his trade. He, probably following the custom of his trade, gave bills due at three months. Before, however, these bills fell due, tea had risen in price, and he was therefore enabled to realise considerable profits. Now it will be observed, that here was a grocer in a small way of business, who purchased large quantities of tea, and who therefore exerted an influence in increasing the demand for it, without employing a single farthing of money, either in the form of coin or bank notes. The profits which the grocer, in the first instance, thus realised, he applied in the following manner to extend his speculations. If a grocer buys tea upon credit, it is customary that he should deposit as a security 2*l.* upon each chest of tea purchased. The realisation of profit in the first instance enabled the grocer to pay this deposit, and his speculative dealing rapidly expanded. A few cargoes of tea, however, unexpectedly came to London, having sailed before the Chinese ports were closed; a sudden fall in price took place, the grocer could not meet his engagements, and in the course of his examination as a bankrupt it was shown that he had purchased 4000 chests of tea at a cost of 80,000*l.*, the loss upon which was 16,000*l.* In this case, therefore, a comparatively poor man was enabled, by

*Immense  
purchas-  
ing power  
produced  
by credit.*



using his credit as a purchasing power, in a short time to buy 80,000*l.* worth of tea. Many others adopted the same course, and every grocer in the country might have employed his credit in a similar manner. It is, therefore, almost impossible to assign any limit to the rise of price which may temporarily take place when the demand for commodities is stimulated by purchases made upon credit. The rise, as we have before said, was only temporary, for directly a panic commences credit is as sparingly allowed as it was before recklessly given. Prices rapidly fall, and they often sink as much below that position of equilibrium which is determined by cost of production as before they went beyond it.

It must be evident, from the examples just given, that every contrivance which facilitates the employment of credit as a purchasing power increases the influence of credit on prices. Many people believe that bank notes are more efficient as a purchasing power than any of the other instruments of credit. As it is conceived that commercial panics are caused by a reckless employment of credit, it is concluded that restrictions upon the issue of bank notes provide the best remedy for the prevention of panics. These opinions prompted the passing of the Bank Charter Act. This Act was introduced and carried by the late Sir Robert Peel in 1844; its leading provisions admit of a brief and simple explanation. The main object of the measure was to restrict the issue of bank notes; it was therefore enacted that the Bank of England should not be permitted to issue notes beyond a certain amount unless a corresponding amount of specie or bullion were retained by the bank. The limit thus fixed was 14,000,000*l.*, it being thought that the funds and various other property possessed by the bank would prove a sufficient security to meet an issue of 14,000,000*l.* of notes. The bank is, however, compelled to keep in its possession specie exactly equivalent in value to every note that was issued beyond 14,000,000*l.* If, for instance, the Bank of England's note circulation is at any time 18,000,000*l.*, the bank is compelled to retain in its coffers 4,000,000*l.* of bullion or specie. In order that the public may feel sure that this obligation is faithfully obeyed, the bank is compelled to publish in the 'London Gazette' a weekly statement of

*The supposition that bank notes are the most efficient purchasing power gave rise to the Bank Charter Act.*

BOOK III.  
CH. XI.

*The Act was not wanted to secure the convertibility of the bank note,*

*but to prevent prices being raised by an undue issue of bank notes.*

its accounts. This statement shows at a glance what is the specie reserve at the bank, and what also is its note circulation. The Bank Charter Act also provides that no banks established after the passing of the measure should be permitted to issue their own notes, and the old banks were not allowed to increase the issue of their own notes. High financial authorities still continue to differ as to whether this Act has the power of doing what it was intended to effect.

Many people suppose that the Act secures the convertibility of our paper currency, but this is entirely erroneous. If the Act were rescinded to-morrow, it would still be as obligatory on the Bank of England as it was before to give specie for every note presented to them, if the demand were made upon them to do so. The Act compels the bank to keep a certain amount of bullion or specie to meet these demands, but this obligation need scarcely be enforced in order to preserve the solvency of the bank. The remarkable prudence and wisdom which distinguish the management of that institution is an adequate guarantee that sufficient bullion and specie would be voluntarily retained in the bank to meet the demands made upon it; and even if it should unfortunately happen that the bank should not be managed with the same prudence as heretofore, the weekly publication of the accounts of the bank would afford sufficient security that an undue amount of notes could not be forced into circulation without an adequate reserve of cash to meet them. If such a forcing of the note circulation were attempted, a feeling of doubt about the solvency of the bank would quickly arise; and the desire of the public to convert their notes into gold would cause a large amount of these notes to be returned to the bank. But those who most strongly support the Act base their advocacy not upon any security which is provided for the solvency of the bank, but upon the restriction which the Act imposes upon the unlimited issue of bank notes. These persons maintain, that during a period of active speculation, the bank, if left uncontrolled, might most powerfully stimulate credit, by large issues of bank notes, and thus contribute to force up the prices of various commodities to an unnatural point. But for reasons just stated it would be impossible for the bank to keep in circulation an amount of notes disproportionate to

the amount of cash reserve. There can, moreover, be no doubt that the credit purchases which are made in times of active speculation are rarely, if ever, effected by means of bank notes. Bills of exchange and book credits are the instruments of credit which are almost invariably employed. For instance, the retail grocer who in 1839 was enabled to purchase 80,000*l.* worth of tea, although he only possessed a capital amounting to 1200*l.*, all of which was locked up in his business, never thought of employing bank notes. The Bank Charter Act did not then exist; the bank was perfectly free to issue as many notes as it pleased, yet it was just as difficult for this grocer to obtain bank notes on credit as it would have been for him to have borrowed money. It would, therefore, have been impossible for him to have speculated to any considerable extent if he had used bank notes, instead of either bills of exchange or book credits. It thus appears that, at any rate in the primary stages of speculation, credit engagements are freely entered into, whether the issue of bank notes is restricted or not.

It is, however, maintained that the Bank Charter Act comes into operation in the later stages of speculation, for after these credit purchases have been continued some time many find it difficult to meet their engagements; bills begin to fall due, and an anxiety is shown to get them renewed. This, therefore, is the time when the bank is pressed to discount bills; large amounts will be willingly paid for accommodation, and the rate of discount consequently rapidly rises. This rise in the rate of discount affords the bank an opportunity of realising large profits, if freely permitted to issue an unlimited amount of bank notes. But the Bank Charter Act effectually restricts the amount of accommodation which the bank can give, for it cannot issue notes without purchasing an equivalent value of bullion; if compelled to do this, the profit of the transaction is of course destroyed. In 1848, in 1857 and in 1866, the three panics which have occurred since the passing of the Bank Charter Act, the pressure upon the bank for accommodation was so severe that the Act had on all these occasions to be temporarily suspended. By adopting this course, the pressure was immediately relieved. The failure of those was not prevented who had speculated

BOOK III.  
CH. XI.

*This can  
be done  
without  
bank notes*

*in the first  
stages of  
speculation.*

*The Bank  
Charter  
Act comes  
into operation at a  
later  
period.*

*Temporary suspension of  
the Act in  
1848, 1857  
and 1866.*

BOOK III.  
CH. XI.

*Importance of the relief afforded by this suspension.*

recklessly and unfortunately, but the increased accommodation which the bank was enabled to give saved many firms, who were not only solvent but wealthy, from succumbing under the sudden contraction of credit which is sure to accompany every panic. If, therefore, this relief had not been provided, many would have been ruined without any fault of their own; for even the most prudent firms in this country conduct their business upon a system of credit; they pay for the goods they purchase by bills, and they are justified in assuming that, if they wish it, these bills will be renewed, or advances will be made to them by their bankers, unless some very exceptional circumstances should occur. The credit of a solvent firm may perhaps be partly based upon the possession of property, and in ordinary times there is no difficulty whatever in immediately obtaining money upon this property to almost the full extent of its value. However, in the general course of commerce a merchant is seldom required to settle any of his transactions by money, for he both pays and receives bills in almost all his transactions. But, in a commercial panic, there is a complete collapse of credit; bills which were renewed before will not be renewed now unless some ruinous premium is paid amounting perhaps to ten, twelve, or fifteen per cent. A general feeling of distrust and insecurity is prevalent throughout the commercial world, and consequently no one will, if he can avoid it, accept anything but money in payment of the debts that are due to him. All the usual sources of accommodation are closed. Banks can no longer afford to make advances, for the pressure upon them is particularly severe, since their customers hastily withdraw their money which may have been left on deposit. During a commercial panic there is a dearth of the legal currency of the realm; in fact, this must be so; because when credit collapses, payments have to be made in money which were never paid in money before; consequently a largely increased supply of money is temporarily required, and if it is not forthcoming, money must obtain a scarcity value, just in the same way as the value of any other commodity would be affected if the demand for it were suddenly and largely increased.

*The relief was*

None of the ordinary substitutes for money, such as bills of exchange, will suffice to relieve this scarcity, be-

cause these substitutes are only instruments of credit, and the severity of the panic is due to a thorough collapse of credit. But Bank of England notes, if allowed to be issued, will afford relief, because as long as these notes are payable on demand, people are as willing to accept them as the current coin of the realm. Now it is very remarkable that, on the three occasions when the Bank Act was suspended, relief was afforded on two occasions without the bank issuing any additional notes. In 1857 the additional issue of notes did not exceed 1,000,000*l.* sterling; in a few days the majority of these notes were returned to the bank, and the circulation was again in its normal condition. The relief may, therefore, be really regarded as a sentimental remedy. When the Bank Act was suspended, people thought that there would no longer be a dearth of money; they were, therefore, not so desirous to receive every payment in money. Credit was thus again gradually given as before, and the bank was consequently not obliged permanently to increase its issue of notes, since the cause no longer existed which had so stimulated the demand for money that it obtained a scarcity value.

When trade is in its ordinary condition, we believe that the amount of the Bank of England note circulation would be the same, whether the Bank Act existed or not. As long as bank notes are convertible into coin upon demand, the amount of bank notes which are kept in circulation is determined by exactly the same causes as those which regulate the amount of the copper and silver coinage. Unless something new should occur, such as a change in the mode of conducting business, it would be impossible to keep in circulation double the amount of our present bronze coinage. Bankers could not induce their customers to take pence instead of silver; when a tradesman draws from his bank the wages to pay his workmen, he takes just as much gold, silver, and bronze money as he believes he shall require; the pence he only uses to pay odd sums, for he would never think of burdening one of his workmen with a number of cumbrous pence, instead of paying him the amount in silver. Similar considerations apply to bank notes; for certain purposes they are extremely convenient. If a person who is travelling takes a considerable

BOOK III.  
CH. XI.

*afforded  
with re-  
markable  
ease.*

*In the or-  
dinary  
condition  
of trade  
the Bank  
Act is in-  
operative.*

BOOK III.  
CH. XI.

*The ordinary bank note circulation is not affected by the Bank Charter Act.*

*Prejudicial effects of the Act.*

*Inconvertible bank notes.*

sum of money about with him, bank notes are particularly useful; they occupy so much less space, and are so much lighter than gold. But the repeal of the Bank Act would be as powerless to make an individual use bank notes in those cases where he now employs gold, as it would be to induce a man to use pence instead of silver and gold. We therefore conceive that, in ordinary times, the amount of the bank note circulation is entirely independent of the Bank Act; we also think that this Act exerts no influence in the first stages of speculation.

When, however, a continuance of excessive speculation produces a commercial panic, it has been shown, on the three occasions when such a panic occurred, that credit cannot be restored without a suspension of the Act. We therefore consider the Act to be prejudicial in its effects. It is generally practically inoperative; it is true, that in a commercial crisis its effects are felt, but on such occasions its suspension has always hitherto become necessary. Nothing can be more unfortunate than these repeated suspensions; no one can tell from hour to hour what will be done, and yet every one is sure that, if the Act is suspended, an enormous revulsion will take place in the money market. The rate of discount in 1857 and in 1866 rapidly fell from ten to four per cent. All this uncertainty increases the excitement and distrust which are sure to be too prevalent in a period of financial difficulty.

Inconvertible bank notes are the only other instruments of credit which have not yet been noticed. In our own country, every bank note can be immediately exchanged for coin. A private bank is obliged to give either Bank of England notes, or coin, for the notes which it issues; and the Bank of England is obliged to give coin in exchange for all its notes; our bank note currency is therefore said to be convertible. The currencies of some other countries are not in this position, and at the commencement of the present century our own bank notes were not convertible into coin. From 1797 to 1819, cash payments were suspended in this country, or, in other words, during this time the Bank of England was permitted to issue notes without being obliged to give coin in exchange for them. For some years after the Civil War the United States afforded the most striking example of a large issue

of inconvertible paper currency. The war severely tried the resources of the national exchequer; it was consequently attempted to meet the financial pressure by an issue of Treasury notes, which were bank notes not convertible into coin on demand. We shall presently consider some of the effects of this issue of treasury notes, and we shall trace its influence on prices<sup>1</sup>.

Before proceeding further with this subject, it is necessary to point out the very different consequences which follow, according as an inconvertible currency is or is not made a legal tender. If an inconvertible currency is made a legal tender, an opportunity is immediately afforded to a government to defraud its creditors to an unlimited extent, and the whole monetary arrangements of the country at once suffer a most disastrous disturbance. Great stress has already been laid upon the fact, that when a currency is convertible, the bank note circulation cannot be forced beyond its natural limits, because, if the bank note issue is unduly increased, the notes are sure to be almost immediately returned to the bank, in order to be exchanged for coin. But there is no practical limit to the issue of inconvertible bank notes, and this is especially the case if these notes are made a legal tender. A government may pay the interest of its debts in these notes. Government contractors may also have the debts due to them discharged in these notes; the contractors, for instance, who supplied the Federal army with stores and provisions, were paid in this manner. In fact, so indefinite is the power of issuing inconvertible notes, that the American government was enabled in a few months to float \$40,000,000. of these notes, whereas the Bank of England notes in circulation do not exceed half this amount. Inconvertible notes will be as freely accepted as coin, if people have confidence that an inconvertible currency is only a temporary expedient, and that the government will take scrupulous care never to permit the issue of inconvertible notes to exceed an amount which can with certainty be ultimately redeemed.

It is, therefore, possible to conceive that exceptional circumstances may occur, during which an inconvertible currency may be issued, if kept within proper limits,

*They may or may not be a legal tender.*

*Within certain limits they need not disturb the*

<sup>1</sup> The United States resumed specie payments on Jan. 1, 1879.

BOOK III.  
CH. XI.

*finances  
of the  
country,*

*but if in-  
creased be-  
yond those  
limits the  
circula-  
tion must  
be depre-  
ciated.*

*If not  
made a  
legal ten-  
der no in-  
justice is  
done, but  
the credit*

without disturbing the finances of the country. For instance, there can be little doubt that the American civil war created a demand for a greater amount of money to be circulated in that country; more money was in fact required, because the raising of a large army, and supporting it in the field, would render it necessary to make many more payments in money. If the issue of an inconvertible currency in America had gone no further than to satisfy this demand for a greater sum of money to be brought into circulation, no one's confidence in the financial credit of the government would have been shaken, and the inconvertible currency would have exerted no effect on prices. But the American Government far outstepped these legitimate limits. These notes therefore became depreciated, and the consequence was that they fell to a discount, or, in other words, gold advanced to a premium. In the year 1869 gold in America was at a premium of about thirty-two per cent., consequently notes which represented 132*l.* only exchanged for 100*l.* of specie. In 1876 the premium was about twelve per cent. As soon as it was resolved to return to specie payments the value of the paper currency became equal to the value of the gold it represented.

If an inconvertible currency is made a legal tender, nominal prices may be forced up in proportion to the extent to which the currency is depreciated. Suppose, for instance, that the American Government during the civil war had contracted for a supply of rifles. A rifle manufacturer might have said, I am perfectly willing to sell my rifles at 10*l.* each, but if I sell them to the American Government I must obtain at least 13*l.*, for they will pay me in their depreciated currency, and 13*l.* in their notes is barely equivalent in value to 10*l.* in gold. The nominal price of rifles in America would rise thirty per cent., in consequence of its depreciated currency, and the same would be the case with every other commodity.

It cannot be said that any injury or injustice is done if inconvertible bank notes are not made a legal tender, although the issue of these notes may indicate a financial policy disastrous to a country. When these notes are not a legal tender, no one is obliged to accept them; if an individual does take them, and afterwards discovers that the



Government cannot meet its obligations, the loss which he suffers is as much his own creation as if he were to accept a bill of exchange from an insolvent trader. Such notes cannot exert the same nominal influence on prices as that just ascribed to inconvertible notes when made a legal tender. If inconvertible notes are not made a legal tender, there is no reason why prices should be estimated in them. Such notes would always serve as a barometer to measure the credit of a government, for as confidence in a government diminishes, these inconvertible notes would be constantly falling to a greater discount. The French Revolutionary Government of 1792 adopted the expedient of issuing inconvertible notes in the form of assignats, and they attempted to maintain the value of these assignats by assuring the people that they were the paper representatives of the confiscated landed property of France. But the value of an inconvertible note is not increased, although it is nominally issued as the representative of certain property, unless people can have an assurance that the holders of these notes will have a legal claim to the property, and that no more notes will be issued than will be equivalent in value to the property on which their security is pretended to be based. What would be the value of a mortgage on an estate, if the owner of it could create any number of mortgages, all of which should constitute an equal claim to the property? The French people soon showed that they placed no faith in these assignats, which became so rapidly depreciated, that an assignat of 2000 francs was scarcely sufficient to purchase a cup of coffee.

BOOK III.  
CH. XI.

*of the Government  
is destroyed  
by a  
large issue  
of them.*

## CHAPTER XII.

### ON THE RATE OF INTEREST.

BOOK III.  
CH. XII.

*Rate of  
interest.*

**I**N the minds of most people, every question concerning currency is so intimately connected with the rate of interest, that it will be advisable in this place to discuss the subject in a distinct chapter. It is the more necessary that we should take this course, because the price of many kinds of property is directly regulated by the current rate of interest.

It was observed, in our remarks upon profits, that gross profits are made up of the three following components:—First, insurance against risk; secondly, wages of superintendence; and thirdly, interest on capital. This last component may be regarded as a remuneration for saving. The amount of the last component may be estimated by the interest which can be obtained upon capital, when invested in securities which, according to the general opinion of the community, involve no risk whatever. In our own country, this certainty against risk of loss is provided by the public funds, and therefore the interest which can be obtained on money, when invested in the funds, always affords a measure of the current rate of interest in this country.

The price of funds varies slightly from day to day, and consequently the current rate of interest must also be subject to daily fluctuations. But although the current rate of interest is liable to these constant variations, yet through a long succession of years they are confined within very narrow limits. The English funds at the present time annually pay 3*l.* upon each 100*l.* of stock; when, therefore, Consols are at 100*l.* the current rate of interest is three per cent. The lowest price which Consols have

*It may be  
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by the price  
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*which is  
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reached during the last thirty years has been 88½; money invested in Consols at this price would pay an interest of about three and three-sevenths per cent.; and as the highest price reached by Consols during the same period was 102½, it is evident that the current rate of interest, though subject to constant fluctuations, has not, when estimated by the price of funds, varied so much as half per cent. during thirty years.

In the language of every-day life, the current rate of interest is said to be determined, or rather to be denoted, by the price of money. If an individual, a company, or a foreign government, wishes to obtain money in the loan market, they are obliged to pay a certain price for the use of it, in the same way as they would be if they purchased any other commodity; the price which is so paid is represented by the rate of interest which is promised by the borrowing party. Suppose the Russian Government cannot obtain a loan in our market under five per cent., whereas our own Government can at the same time borrow money at three per cent., those who lend money to our Government think that they incur no risk of loss, and therefore a remuneration of two per cent. is given for the risk which is supposed to be incurred when lending money to the Russian Government. With this remuneration for risk we are not concerned, when investigating the current rate of interest.

It is evident that there is some point which may be regarded as a position of stable equilibrium about which the current rate of interest oscillates. In this country, although varying from day to day, it approximates to about three per cent. This point, therefore, about which the oscillation takes place, may be regarded as the average or normal amount of the current rate of interest. Two distinct investigations must consequently be made. In the first place, the causes must be ascertained which determine the average current rate of interest; for the question may be naturally asked, Why should not the rate of interest fluctuate about two or about four per cent., instead of keeping with so much constancy to about three per cent.? After having made this investigation, we shall then proceed to account for those small fluctuations in the rate of interest which are almost of daily occurrence. It would thus appear,

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*The rate  
of interest  
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tions.*

The current rate of interest depends upon the accumulation of capital and its relation to the demands of borrowers.

adopting the language of the money market, and speaking of the price of money instead of the rate of interest, that the laws which determine the price of money require the same mode of exposition as those which regulate the price of every other commodity. In the chapters on Price it was explained, that the price of each commodity was subject to constant variations, which were caused by fluctuations in the demand and supply; but at the same time these variations always gravitate to a certain point, which is determined by the cost of producing the article, and which has been denominated by political economists the natural price.

The first problem, therefore, which presents itself for solution is this, Why should the rate of interest in this country, upon the best security, be now always about three per cent.? why should it not be either much more or much less than this—say, for instance, five per cent., or two per cent.? A century since, no money could be borrowed in this country, even by Government, at less than five per cent.; whereas, in Holland, the Government has frequently obtained loans at two per cent. The rate of interest is primarily determined by the capacity and desire the people of the country have to accumulate capital, compared with the demand for the capital which is so accumulated. Now, as previously remarked, the amount of wealth which is saved will vary *cæteris paribus* with the rate of interest which can be obtained. If five per cent. were the current rate instead of three per cent., there would be a greater inducement offered to every individual to save, and consequently a greater amount of capital would be saved. But on the other hand, the demand for capital varies inversely with the rate of interest; there will be a greater demand to borrow when money can be obtained at three per cent., than when it is necessary to give five per cent. If, therefore, the rate of interest were five per cent., there might be an amount of capital accumulated more than sufficient to meet the demands of those who wished to borrow; if, however, the rate of interest were only two per cent., the demands of those who wished to borrow might far exceed the amount of capital to be lent. An adjustment takes place similar to that which regulates the price of commodities, for the rate of interest must ultimately settle down to such a point as will equalise the demand to the

supply; or, in other words, the amount of capital accumulated must satisfy the demands of those who wish to borrow.

*Explanation of the difference between rates of interest in different countries.*

The principle just enunciated affords an explanation of the various rates of interest which prevail in different countries. The Dutch are more frugal in their habits and less expensive in their mode of living than we are. A less powerful inducement will therefore make them abstain from spending, and consequently two per cent. interest on capital may exert the same influence in causing the Dutch to accumulate as would be exerted upon the English by an interest on capital of three per cent. It therefore appears that the amount of capital accumulated, or, in other words, the current rate of interest which prevails through an average of years, partly depends on national character. In countries where the government is unsettled and property insecure, the rate of interest is certain to be high, because under such circumstances it would be impossible to find any very secure investment; consequently a portion of the interest received may always be considered as an equivalent for the risk of loss incurred; in the same way people always expect to obtain a high rate of interest from hazardous speculations. In India, a high rate of interest has always prevailed, for there property has been insecure, the people being constantly pillaged by the native rulers who tyrannised over them. In a young prosperous colony such as Australia, the rate of interest is sure to be higher than in an old thickly peopled country like our own. In this case the high rate of interest is not to be accounted for, as in India, by a want of security with regard to property. It has already been remarked, with reference to Australia, that a generally high rate of profit is sure to prevail when there is a plentiful supply of fertile land. But if the average rate of profit which can be realised in trade is high, the rate of interest must necessarily be also high. If farmers in Australia on the average obtain a profit of twenty per cent., whereas farmers in England only obtain a profit of ten per cent., an Australian farmer will pay a much higher rate of interest for capital which he might wish to borrow with a view to extending his business, than an English farmer could possibly afford to pay. Every

*In Australia it is high because profits are high.*

BOOK III.  
CH. XII.

*It will be affected by the cost of obtaining food.*

circumstance therefore in a country which tends to raise the average rate of profit must also produce an increase in the rate of interest; on the other hand, the rate of interest will be lowered by every circumstance which tends to reduce the average rate of profit.

It has been shown in a previous chapter<sup>1</sup> that the average rate of profit rises or falls as the cost of labour is increased or decreased; it has been also explained that the cost of labour is less or greater according as food is cheaper or dearer; hence, a bountiful supply of cheap food, whether imported from other countries, or obtained from our own soil by agricultural improvements, exerts a direct influence to raise the average rate of profit, and consequently to increase the average rate of interest. But in a country like our own, the rapid increase of population tends to make food become more expensive, and therefore the question, whether the general rate of profit, and consequently the average rate of interest, will decline as population advances, must be determined by considering whether agricultural improvements and foreign importations of food will suffice to meet the demands of a larger population without increasing the expense of obtaining food.

*The price of property often depends upon the current rate of interest.*

The price of many kinds of property directly depends upon the average rate of interest. Suppose from any circumstance, such as the cheapening of food, or from the opening up of new and eligible investments for capital, that the rate of interest should rise throughout England, say from three to four per cent.; a corresponding decline must take place in the price of all such securities as the funds, railway debentures, and other investments, the interest upon which is fixed. The price of railway, mining, and other shares, would also decline; for the price of these shares is now so regulated by the general competition in the money market, that the dividends paid upon these shares must be sufficient, not only to return the interest given by investments which are perfectly secure, but, in addition to this, to provide an adequate equivalent for the risk incurred. The price therefore of such shares must decline, if the rate of interest increases. The price of land would also be affected by either

<sup>1</sup> Chap. v. Book II.

a rise or fall in the general rate of interest. In our own country, land is considered as secure an investment as Consols. There are many advantages associated with the ownership of land which are not enjoyed by a fundholder; the possession of land gives social position and political influence, and also affords an opportunity for enjoying the pleasures of a country life. Money invested in land does not return so large an interest as if it were invested in the funds, for the advantages just enumerated are considered to afford a compensation for the smaller interest received. If, therefore, the general rate of interest should rise, the price of Consols would decline, and the price of land would also decline, because land would be expected to pay a higher rate of interest than before.

When it is said that the price of land tends to decline with a rise in the rate of interest, it must not be supposed that land necessarily diminishes in value as the rate of interest advances. The particular influence which is exerted on the price of land by a rise in the rate of interest may be understood from the following simple example:—Let it be supposed that money invested in land ought to return the same interest as money invested in the funds; we may consider this interest to be at the present time three per cent. A landed estate, therefore, the net income from which was 3000*l.* a year, would sell for 100,000*l.* But the same estate, if the net annual returns from it continued to be 3000*l.*, would only sell for 60,000*l.* if the rate of interest should advance from three to five per cent., and if people still expected to obtain the current rate of interest from money invested in land. Upon this hypothesis the price of this estate and all other landed property would decline forty per cent. if the rate of interest advanced from three to five per cent. It must, however, be borne in mind, that the causes which affect the average current rate of interest may also affect the returns to landed property, or, in other words, the rent of land. The conclusion that the price of landed property would decline forty per cent. if the rate of interest advances from three to five per cent. is based upon the assumption that the rent of land remains unchanged; the current rate of interest, in fact, simply determines the number of years' purchase which land will realise. It

*The price of land will generally fall as the rate of interest rises,*

BOOK III.  
CH. XII.

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may, however, be remarked, that most of the circumstances which produce a rise in the rate of interest will usually decrease the rent of land; thus, the rate of interest is raised by a diminution in the cost of labour; cheap food decreases the cost of labour, but when food is cheap, agricultural produce is also cheap, and farmers cannot pay so high a rent for the use of land. Again, if the rise in the rate of interest is not accompanied by any change in the price of agricultural produce, the farmer's profits will be the same as they were before; he will not, however, be satisfied with the same profits, because the average rate of profit throughout the country will rise if the rate of interest is increased, and his rent must consequently be reduced. It therefore appears that a rise in the rate of interest will generally reduce the price of land in two distinct ways; in the first place, as the rate of interest advances, the number of years' purchase which land will realise diminishes; in the second place, the causes which produce a rise in the rate of interest generally exert an influence to decrease the rent of land.

A remark may here be made to meet a difficulty which may suggest itself to some of our readers. It may be asked, How can there be, with the keen competition of capital which distinguishes this commercial age, such a difference in the current rate of interest as that between England and Holland? It might be thought that Dutchmen would place the same confidence in our funds as they would in their own Government securities, and that consequently capital would be sent from Holland to be invested in our funds, instead of being employed there at a lower rate of interest. If the Dutch did this on a very large scale, there would cease to be any marked difference in the rate of interest prevailing in the two countries. But however active the competition of labour and capital may be, however keen and desirous traders may be to realise the largest profits, and labourers to secure the highest wages, yet the people of each community, more or less, restrict the range of competition to their own country. The prospect of very slightly higher wages would tempt our more intelligent workmen from London to Scotland; but a far larger inducement must be offered to workmen in order to induce them to undertake a shorter



journey: to cross the Channel and to settle in France. As long, therefore, as these feelings continue, very different rates of wages may prevail in different countries. In a similar manner, although there is no doubt that capital passes more freely than labour from one country to another, yet the people of each country naturally feel more confidence in their own government than is felt by the people of other nations. Hence they may be willing to accept a smaller rate of interest from their government than would satisfy foreign investors. It is evident, therefore, that although capital is largely invested in foreign countries, yet people so highly appreciate the advantage of having their capital invested in their own country, that very different rates of interest may prevail in two neighbouring nations.

We have now remarked upon the chief causes which determine the average rate of interest which prevails in different countries; it is now necessary to explain those temporary variations in the rate of interest which are indicated by daily fluctuations in the price of funds, or by frequent alterations in the rate of discount. It has been stated, that the price of funds has not varied more than fourteen per cent. during many years, consequently there is not more than about three-eighths per cent. difference in the interest which the funds pay when at their maximum, and when at their minimum price. But alterations in the rate of interest at different times would appear to be much greater, if they are estimated by fluctuations in the rate of discount. The rate of discount very frequently varies as much as one per cent. in the course of a week, and during a commercial crisis it has in a few weeks advanced from four to ten per cent. The rate at which the Bank of England discounts bills is termed the bank rate of discount, and this is an indication of the general rate of discount throughout the country. The bank could of course have no power to control the rate of discount, unless it carefully followed the wants of the money market; for if the bank rate of discount was higher than the rate at which other establishments could afford to discount bills, no bills would be taken to the bank to be discounted. If, on the other hand, the bank should discount bills at lower rates than other establish-

BOOK III.  
CH. XII.

*Confidence  
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own  
government.*

*Daily fluctuations  
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*Bank of  
England  
rate of discount.*

BOOK III.  
CH. XII.

ments, every bill would be taken to the bank, and the bank would be virtually resigning a large amount of profit. The bank rate of discount is usually fixed each Thursday, at the weekly meeting of the directors and governors, and unless something very extraordinary occurs, it is not altered during the week. The bank rate of discount also regulates the amount of interest which can be temporarily obtained upon money; for joint-stock banks, such as the London and Westminster, allow interest one per cent. less than the bank rate of discount upon all sums which are deposited with them exceeding 500*l*. The interest upon deposits, for instance, would be nine per cent., when in a commercial panic the bank rate of discount was ten per cent.

*Why the funds do not vary more rapidly.*

It may seem extraordinary that there should not have been a greater fall in the funds and other such securities, when bankers would allow interest at the rate of nine per cent. Why, it may be said, should any one have kept their money in funds or railway shares, which were only paying three or four per cent., when bankers would give nine per cent. interest? It must however be remembered, that every one knows that the rate of discount would only remain for a very limited time at ten per cent.; it would rapidly, perhaps suddenly, return to its former amount; as the crisis subsides, the price of all securities would improve, and then those who sold their funds or shares to enjoy a temporary high rate of interest, would be obliged to repurchase them at advanced prices.

*Rate of discount depends upon the amount of money in the market at a given time.*

The frequent variations in the rate of discount are not due to any permanent causes, but rather depend on the amount of money floating in the loan market, compared with the amount required to support the various advances made, and the various engagements undertaken upon credit. The rate of discount would immediately rise if any event should occur which would cause an increased demand for specie. Suppose, for example, that a prospect of war with China should induce our merchants to believe that we might for a time be shut out from commercial intercourse with that country; in this case our merchants would at once send out large amounts of specie to China, for the purpose of purchasing tea and silk. These merchants would obtain this money by

advances made to them on credit. If they had bills in their possession not yet due, they would immediately get them discounted; hence the demand for discount, or, in other words, the demand for specie, will be temporarily increased, and the rate of discount and the rate of interest will both rise. Any circumstance which causes credit to be restricted will at once produce an advance in the rate of discount; for a restriction of credit means, that people are more anxious to be paid in the form of money. There will, therefore, be a greater anxiety shown to convert all such instruments of credit as bills of exchange into money; the demand for money will increase, and the rate of discount necessarily advance.

If, therefore, we summarise the results of this chapter, it may be stated, that the average rate of interest which prevails in any period depends upon the amount of capital existing in a country, compared with the various other circumstances which have been enumerated as affecting the economical condition of a nation. But those temporary variations in the rate of interest which are marked by almost daily fluctuations in the price of Consols, and in the rate of discount, are not determined by changes in the demand and supply of capital, in all the various forms in which it ministers to the production of wealth. These variations depend on the demand and supply of capital in one particular form, namely, money; for it has been shown that a rise in the rate of discount is caused by an increased demand for ready money, usually resulting from a contraction of credit.

BOOK III.  
CH. XII.

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## CHAPTER XIII.

### THE TENDENCY OF PROFITS TO FALL AS A NATION ADVANCES.

BOOK III.  
CH. XIII.

IT has been incidentally remarked in the last and several other chapters, that a high rate of profit is sure to prevail in young colonies which possess an abundant supply of fertile land. Moreover, the history of every progressive nation shows that the current rate of interest has gradually declined; it would therefore seem, that an advance in population and wealth is sure to be accompanied by a fall in the general rate of profit.

The explanation of the different rates of profit which prevail in the various stages of a nation's progress, suggests questions of as much practical and scientific interest as any that are discussed in political economy. It is somewhat singular, too, that these particular questions have perplexed many of the most eminent writers on this science; for instance, Adam Smith failed to give a correct solution of the problem here presented. All his remarks on the subject seem infected with the fallacy that low prices produce a reduction in the rate of profit.

General high or low prices indicate nothing with regard to the average rate of profit. High prices simply show that money has a small purchasing power; on the other hand, low prices show that money has a large purchasing power. If, from the discovery of very rich gold mines, the cost of obtaining gold should be greatly reduced, gold might then decline in value one half; if this should be so the price of every commodity would be doubled. It would not however follow, that such a great rise in general prices would be accompanied by even the slightest alteration in the average of profit. In order to

*High or  
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prove this, let us inquire in what manner the position of a manufacturer would be affected by such a change in the value of gold as that just supposed. If general prices were doubled, the manufacturer would be enabled to obtain double the price for his goods; but then it must not be forgotten, that the money cost of producing these goods would also be doubled, for he would be obliged to pay double the price for his machinery, and for the raw material. His labourers' wages must also be doubled, because now 5*l.* would only have the same power of purchasing commodities as 50*s.* had before. It is therefore manifest, that a general rise or fall in prices is solely caused by an alteration in the value of the precious metals, and, consequently, can have no effect in determining the average rate of profit.

In order that there should be no obscurity upon this subject, let us again impress upon our readers, that the rate of profit is primarily determined by the ratio in which any wealth which is produced is distributed between the capitalists and the labourers, who have contributed to its production. Unless, therefore, the amount of the wealth itself is increased, the share allotted to the capitalists can only be augmented by diminishing the share appropriated to the labourers. If, for instance, the employer's share is one-third, the labourer's share will be two-thirds, and if the employer's profits should be increased, and his share should become one-half, the labourers' wages must be diminished, for their share would be one-half instead of two-thirds. This proposition, though apparently so simple, is fundamental, and cannot be too carefully borne in mind by the reader.

Adam Smith was probably induced to suppose that low profits were produced by low prices, by misinterpreting certain phenomena of frequent occurrence. When any particular branch of industry is extremely prosperous the prices prevailing in it rapidly advance and an exceptionally high rate of profit prevails. On the other hand, when any particular branch of trade is depressed, prices decline and profits are reduced. The connection which thus appears to exist in certain cases between high or low prices and high or low profits can be readily explained. Activity of trade is due to an augmentation in the demand for any

*The rate of profit is primarily determined by the ratio in which produce is divided.*

*The connection which, in certain cases, exists between high prices and high profits explained.*

BOOK III.  
CH. XIII.

particular commodity; on the other hand, an industry becomes depressed when the supply of the commodities produced exceeds the demand for them. In the first place, let it be assumed that a new market is suddenly opened for some kind of manufactures, such, for instance, as woollen cloth. An increased quantity of cloth cannot perhaps be at once produced to meet this new demand; those who are anxious to purchase cloth compete with each other for its possession; the price of cloth consequently rises and the manufacturer's profits are increased. This advance in profits can only be temporary, for the exceptionally high profits will attract capital to the trade. The supply of commodities will be increased, and thus the new demand will become satisfied. Prices will decline and the profit realised in the branch of industry will be gradually restored to the natural rate.

In order to investigate the opposite case, let it be assumed that there is a sudden falling off in the demand for cotton goods. The supply will consequently, for a time, exceed the demand. The competition of those who are anxious to sell will reduce prices, and profits will decline. People are naturally anxious to contract their business if it ceases to be remunerative. The manufacture of cotton goods will be gradually contracted. The supply will be diminished; prices will again rise, and profits will be restored to their natural rate. It is therefore evident that the prevalence of high or low profits in some particular branch of trade simply indicates that for a time either an exceptionally high or an exceptionally low rate of profit is realised. But a rise or a fall in general prices is solely due to an alteration in the value, or, in other words, in the purchasing power of gold, and denotes nothing whatever with regard to the average rate of profit.

It has already been found convenient to employ the expression, 'the effective desire to accumulate wealth.' This effective desire is sure to increase with the social progress of a nation. The less civilized people are, the less care will they have for the future; the more prudent people are, the more desirous will they be to save wealth, and thus accumulate capital. It is only the most backward tribes who do not make some provision for the future, and there is no doubt that a great amount of wealth

*The effective desire to accumulate wealth increases as a country progresses.*

would be saved, even if no profit could be obtained on capital. People would set aside something, in order either to make a provision for children, or to be prepared against old age, and such casualties as illness. But the great bulk of the capital of the country is saved for the purpose of obtaining a profit upon its investment. It therefore follows, that the amount of profit which is thus obtained primarily determines the amount of capital accumulated. It is, however, impossible to tell the exact ratio in which the amount of capital accumulated would increase or decrease with a rise or fall in the average rate of profit; all that can be said is this, that the wealth saved will be greatly diminished, if the current rate of interest on the best security should fall from three to one per cent. On the other hand, the accumulation of capital will be most powerfully stimulated, if new and eligible investments for capital should be opened up. It must, however, not be concluded, that if at some future day our Government should be able to borrow money at one per cent., there would then be less capital accumulated than now. The reverse would assuredly be the case, because such a fall in the rate of interest would prove that the effective desire of the people to accumulate wealth had been much increased; in fact, their prudence would have become so great, that then one per cent. interest would offer the same inducement to save as three per cent. does now.

It would therefore appear, that the amount of wealth which is saved in a country at any particular time is partly the cause and partly the effect of the average rate of profit, for the greater the amount of the capital which is accumulated, the less *cæteris paribus* will be the average rate of profit; whereas, on the other hand, the less the average rate of profit, the smaller *cæteris paribus* will be the amount of capital accumulated. An adjustment takes place between these different influences; for it is evident, in the first place, that a certain average rate of profit results from a particular amount of accumulation, and secondly, the amount which is accumulated determines the average rate of profit. In each stage, therefore, of a nation's social and economical condition there must prevail a certain average rate of profit, this rate being adapted to the particular amount of capital which will be accumu-

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BOOK III.  
CH. XIII.

*When a country is progressing capital and population both increase.*

lated by the prospect of being able to obtain the rate of profit which is supposed to prevail. We are now in a position to investigate the general tendency of profits to rise or fall as a nation advances; for this can be conveniently done by considering the principal circumstances which accompany a nation's economical progress, and by tracing the effect of these circumstances upon the average rate of profit. When a nation is advancing, capital and population are sure both to increase. If the population increases faster than the circulating capital of a country, there will be a smaller proportionate amount to distribute amongst the labourers, and their wages must inevitably decline. If this decline in wages is not accompanied by any diminution in the industrial efficiency of the labourer, a smaller sum of money will be paid for the same amount of labour, and it would therefore appear that profits must consequently be increased. If, on the other hand, the circulating capital increases faster than the population, wages must advance, and the profits of capital will be diminished. It might, therefore, seem that an increase of population tends to augment the rate of profit, and yet such a conclusion is apparently contradicted by experience; for in young colonies, whose fertile land is only partly occupied, a high average rate of profit always prevails; moreover, it may be observed that profits decline as a country becomes more thickly peopled. All the phenomena just described may be very simply explained.

*Food constantly requires more labour to produce it as a country progresses,*

It has already been frequently affirmed that, in the absence of any counteracting circumstances, food requires more labour and capital to produce it, and therefore becomes more expensive, as the wants of an increasing population render it necessary to resort to less productive land. If food could be obtained in indefinitely large quantities without any increased cost, every advance in the population of the country would exert a direct influence to raise the average rate of profit. In every old country the remuneration received by the worst-paid labourers may be regarded as the minimum wages, or, in other words, the least wages which will suffice to support the labourer. As an example of this, our own agricultural labourers may be cited, for every one who is acquainted with their con-



dition must know that their wages could not be reduced, without depriving them of many of the first necessities of life; such a deprivation would diminish their manual strength, and decrease the efficiency of their labour. The wages of the agricultural labourer in this country are barely sufficient at the present time to provide him and his family with the cheapest clothing, and the simplest food. Let any one take the average earnings of an agricultural labourer in the west of England, and let an estimate be formed of this labourer's expenditure, and it will be found that it is impossible for an agricultural labourer to eat meat more than once a week; he is moreover powerless to make any provision against old age or sickness. Let us inquire what will take place if population increases, and food becomes more expensive. It may be assumed, in order to illustrate the argument, that bread rises in price fifty per cent.; such an assumption is by no means imaginary, for within the last few years there has been in many districts in England a greater rise than this in the price of meat and dairy produce. Labourers would endure much suffering if they obtained less bread than they are now accustomed to consume; if, therefore, bread rose in price fifty per cent., it would be impossible for agricultural labourers to live on their present wages; their wages therefore must be raised, or, in other words, the cost of labour increases, if no counteracting circumstances intervene to prevent food becoming more expensive, as population advances. Hence, in a country like England, which is advancing in population and wealth, two agencies are constantly exerting an influence to reduce profits.

In the first place, an increased population tends to make food more expensive, but if food becomes more expensive, the cost of labour is augmented, and this cannot happen without diminishing profits. In the second place, as a nation advances in wealth, the people become more prudent, a smaller return on capital will induce them to save, and consequently, a greater capital is accumulated in proportion to the profits which can be realised upon it. There can however be no doubt that many circumstances come into operation which act more or less powerfully to retard this fall in profits. Thus it should be borne in mind, that only a portion of the capital accumulated in England

*and thus the cost of labour increases.*

*Hence two causes combine to lower profits:*

*increased cost of labour, and increased saving.*

*The effect of these causes is*

BOOK III.  
CH. XIII.

*retarded  
by the ex-  
portation  
of capital.*

is invested in the country itself, either as circulating or as fixed capital. Our capital is freely invested in other countries; we subscribe to foreign loans, and by our aid many most important railways and other works have been carried out in every quarter of the world. As an example it may be stated that of the 15,000,000*l.* which has been spent upon the Grand Trunk Railway in Canada, nearly the entire amount was subscribed by English shareholders. Every year the field for the investment of capital in foreign countries is rapidly extending, and it will continue to extend, as the barriers of prejudice are broken down between different nations, and as security of property is spread over a wider area. Now all this capital which is accumulated, but is not invested, in our own country, produces no effect, either upon the average rate of profit, or upon the wages paid to our labourers; and as the field for the investment in foreign countries may become of almost boundless extent, it is quite possible to conceive that capital may continue to increase, even with greater rapidity than it has during the past few years, without causing any fall in the rate of profit. If, however, this outlet for our savings should be at any time partially closed, a great stream of capital would be turned back upon England: the circulating capital of the country would consequently be greatly augmented; the wages paid to the labourers, and therefore the cost of their labour, would be greatly increased, and the rate of profit would rapidly decline.

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ed by agri-  
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improve-  
ments.*

Observations have now been made upon the extent to which a fall in the rate of profit resulting from a constantly increasing accumulation of capital may be counteracted by the investment of capital in foreign countries. We will next speak of the principal circumstances which counteract the decline in profits, which will be sure to accompany an increase in population, unless supplies of cheap food can be obtained. Agricultural improvements, and the importation of food from countries less thickly peopled than our own, are the chief circumstances which enable additional supplies of food to be obtained without an increase in its cost. In the first place, with regard to agricultural improvements, there can be no doubt that superior methods of culture have largely augmented the

average yield from each acre of land in this country, and this larger produce has been obtained without a greater proportionate expenditure of labour and capital. Two very prominent improvements need only be mentioned; for it is well known that much comparatively unproductive land has been made to produce large crops of corn, by the cultivation of the turnip, and by the use of artificial manures. Improved implements are every year introducing greater efficiency and economy into agriculture. If we were compelled to obtain from our own soil all the additional food which an increasing population would require, food would greatly rise in price, the cost of labour would be increased, and profits would decline.

Those political economists who consider that a decline in the rate of profit must of necessity accompany an advance in population and wealth, frequently affirm that material progress has very definite limits, and that the progress of each nation must, necessarily, sooner or later cease. It is, for instance, maintained that if the rate of profit continues to decline, the returns to capital will, after a time, be so small, that no adequate inducement will be held out for increased accumulation. Under these circumstances, capital will not be further increased, the rate of profit will have reached its lowest limit, and the nation then will arrive at what is called a stationary state. A stationary state is of course a possible contingency, and there can be no doubt that England might soon be in this condition if those causes which have been enumerated, as tending to keep up the rate of profit, ceased to act for any length of time. But, with regard to almost all countries, the stationary state was more likely to be attained fifty years since than it is now. During the last century, the Dutch frequently lent money to their Government at two per cent.; this indicates a much lower rate of profit than has prevailed in any European country for many years past. Holland in the last century no doubt very closely approached the stationary state. But the general condition of Europe was then so disturbed, that comparatively little capital was sent from one country to another for the purpose of being invested; hence, nearly all the capital which was accumulated by the thrifty Dutch had to be invested in their own country, and the result of

*The 'stationary state'*

*seems to be less probable now than formerly.*

BOOK III.  
CH. XIII.

*The conversion of circulating into fixed capital tends to keep up the rate of profit.*

*A commercial crisis may tend to keep it up by the destruction of capital.*

this was that the rate of profit which prevailed was so low, that no sufficient inducement was offered to increase the amount of capital accumulated.

There are many other modes in which capital is absorbed, besides those which we have enumerated; for instance, the conversion of circulating into fixed capital tends to keep up the average rate of profit. During the first years of the great railway extension in this country, the average rate of interest undoubtedly rose; there was a great demand for capital, and the tempting speculations which presented themselves induced many to withdraw capital from business, and embark it in railway undertakings. But when, by the conversion of circulating into fixed capital, the wages fund of the country is diminished, the cost of labour is decreased, and an influence is thus exerted to raise the rate of profit. Such diminution in the wages fund is by no means hypothetical; the wages of labourers have often been for a time decreased by the sudden conversion of a large amount of wealth into fixed capital, in the form of railways, machinery, &c. The injury to the labourers, it is true, is only temporary, because machinery and useful public works greatly augment the productive resources of the country, and create a larger fund, from which future capital may be accumulated.

Some people have considered that the average rate of profit is kept up, or is prevented from falling, by the destruction of capital, which always takes place in those commercial panics which seem to recur with periodic regularity. The phenomena which accompany these crises give colour to this opinion. In consequence of the increasing accumulation of capital, the money market is at length said to become glutted with capital seeking for investment; loans are freely offered, and the rate of interest declines. In such a state of things any undertaking which offers a prospect of unusual gain is eagerly supported; a speculative feeling is thus engendered, the excitement quickly blinds men's judgment, all kinds of fictitious schemes are brought forward, and capital is recklessly subscribed to carry out unprofitable undertakings. Directly the mania begins to subside the losses of individuals become revealed, and it is discovered that immense sums of

capital have been wasted; the surplus capital which was floating in the money market has been destroyed, capital becomes scarcer and the rate of interest rises. Hence, no doubt, a commercial crisis produces a considerable effect on the rate of profit by absorbing, or rather by destroying capital; but it is to be doubted whether the influence thus exerted is so powerful as that which is produced by those other circumstances already described as sustaining the average rate of profit.

The general remarks which have been made in this chapter may be illustrated by explaining the high average rate of profit which prevails in a young colony such as Australia. The material condition of a country in the position of Australia is characterised by an abundance of fertile land and by a comparative scarcity of capital and labour. The economy, therefore, of an old country like England affords a direct contrast; for in England fertile land is scarce, and labour and capital are both abundant. When fertile land is plentiful, food is sure to be cheap, and this will be especially true with regard to those kinds of food which require little labour for their production. For instance, immense flocks of sheep have been fed on the pastures of Australia entirely for the sake of their tallow and wool. The meat of these sheep was of no value whatever, until the gold discoveries brought a sudden accession of population; for previously there were only enough people in Australia to consume a small portion of the mutton that was annually killed. Wheat, however, was not relatively so cheap as mutton, because the cultivation of wheat requires considerable capital and labour. Labour was, however, scarce, and the implements of agriculture were expensive. Although labour and capital may be both scarce in such a country as Australia, yet it is evident that the returns of this labour and capital, if applied to cultivate the soil, must be extremely great when it is remembered that in such a country even the most fertile land can be obtained at a merely nominal price.

The industry of a young colony is sure to be almost entirely confined to agriculture, for the great abundance of fertile land at her command gives her superior advantages in comparison with older countries. On the other hand, it is impossible for a young colony to compete

*The high rate of profit which prevails in Australia explained.*

*Reason why in a young country agriculture and*

BOOK III.  
CH. XIII.

mining are  
more flourish-  
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The rate  
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successfully in manufacturing industry; she does not possess the appliances which manufacturers require, the machinery would have to be imported, and labour would be more expensive. Our operatives would not, of course, emigrate to Australia unless they expected to obtain higher wages. The same considerations apply in a somewhat modified degree to mining industry; the gold mining of Australia is an exception to this, because comparatively few countries produce gold, and therefore Australia has little competition. But in the case of such minerals as copper, which are produced both in England and Australia, it is impossible for Australian copper mines to compete against English copper mines, unless the former are far richer than the latter. Labour and machinery are so expensive in Australia, and the cost of bringing the ore from the mine to the coast is so great, that many a copper mine which is unprofitable in Australia would be a source of enormous wealth if it could be transferred to England.

We may, therefore, conclude that the industry of a colony can be most advantageously employed in agriculture and in supplying those wants of the people for which provision cannot be made by importing commodities from other countries. For besides agricultural labourers, there must, in a young colony, be bricklayers and carpenters to build houses, and all the various retail dealers and others connected with them who minister to the daily domestic requirements of life. Since, therefore, agriculture is the staple industry of a colony, it is evident that the average rate of profit which prevails will be regulated by the profit which can be obtained upon agriculture. When there is abundance of fertile land, every one can easily become a farmer; hence capital would not long continue to be employed in house building, or in retail trades, if a larger profit could be realised by investing it in agriculture. In order therefore to explain the high rate of profit which prevails in a colony, it will be necessary to show that the profits on agriculture are larger in a colony than in a thickly peopled country. Where fertile land is so abundant, it is of course only necessary to cultivate the most productive soils. Consequently labour and capital, when applied to agriculture, will be far more productive in a colony than in a country like our own.

It may perhaps, however, be said, that we have land far more fertile than any which is tilled in Australia. This, no doubt, is true, but the English farmer has to pay a heavy rent for the use of land, and he does not on the average realise greater profits than the farmer who cultivates worse land, but who pays a smaller rent. England's population is so great, that there is a demand for all the produce which can be raised from her cultivated soil; high rents therefore must prevail. These rents are an essential part of an English farmer's expense; he pays his rent for the use of an efficient agent of production, just in the same way as if he were compelled to purchase a useful machine. The farmer in a colony has, speaking comparatively, to pay no rent; he is saved this heavy expense, and there consequently remains a greater amount of produce to be distributed between the farmer and the labourer. Wages and profits are, for these reasons, almost invariably higher in a colony where fertile land is abundant, than in an older country where the growth of population has made land scarce.

## CHAPTER XIV.

### OF OVER-PRODUCTION OR EXCESS OF SUPPLY.

BOOK III.  
CH. XIV.

*Supposed  
danger of  
over-pro-  
duction.*

*Over-pro-  
duction  
may have  
two mean-  
ings.*

ALL political economists who preceded James Mill and Ricardo, and many who have succeeded them, seem to anticipate a general over-production of commodities as a possible or even probable contingency. Dr Chalmers and Mr Malthus went so far as to impress upon all, the duty of exercising a moral restraint with regard to the accumulation of capital; for if this is not done, they feared that wealth would only be created to be wasted, and that it would be impossible to consume a great portion of the commodities produced. Sismondi was actually opposed to the use of machinery, because he believed that if the production of wealth was so much facilitated there would inevitably ensue a general over-production of all commodities.

The fundamental error involved in these opinions would probably never have been supported by the three great writers just mentioned, if there had not been some ambiguity in the meaning they attached to the expression 'over-production.' Let us therefore commence by defining what is meant by this word. Now, over-production may exist in two very different ways: in the first place, a greater quantity of commodities may be produced than can be sold at remunerative prices. In this case there may be no deficiency in the power of consumption. Everything which is produced can be readily consumed, but those who have a demand are not willing to pay such a price as will remunerate those who produce the commodities. It is difficult, from the language employed, to determine whether this is the kind of over-production which is



intended by Chalmers, Malthus and Sismondi. It is, perhaps, more probable that they conceived a second kind of over-production, differing very essentially from this. It is possible, as an hypothesis, to suppose that a greater quantity of all commodities may be produced than people really want. In the course of this chapter it will be proved that such an over-production has never taken place in the past and is never likely to occur in the future.

With regard to the first kind of over-production, it has been stated when considering the laws of value and price that some particular commodity is frequently produced in excess; the price at which it sells will then cease to be remunerative, and the profits of those who produce the commodity are consequently reduced. These low profits discourage the production of a particular commodity; in this way its supply is diminished, the demand is once more equalised to the supply, and prices are again made remunerative to the producer. When these low profits temporarily prevail in any branch of industry in consequence of over-production, it is said that the particular trade is dull or depressed. It is quite possible that such dulness and depression caused in the manner above described may exist in every trade; if such a phenomenon should really occur, it would no doubt have been considered by the above-mentioned writers to denote general over-production. In one sense, it would be over-production; but the word has a double meaning, and by the aid of this ambiguity the most mischievous economic fallacies are speciously propounded and readily assented to. The method adopted is the following—Certain phenomena are described, and are admitted to prove the existence of general over-production in one of its significations. When, therefore, the possibility of over-production is proved, numerous events are shown to result from over-production in its other signification, and therefore the possibility that these events may really occur is regarded as proved, because the existence of over-production in its other sense has been admitted. This method of reasoning affords a basis for an indefinite number of fallacies. If it be admitted that there is over-production, so far as it is represented by low profits, yet it can be proved that there never has been, and there never will be, over-production in the

BOOK III.  
CH. XIV.

*The evils which may result from over-production in the sense of low profits*

*are adduced to prove the possibility of a production of more wealth than can be consumed.*

BOOK III.  
CH. XIV.

*Case of over-production of a single commodity, such as cotton.*

*The cotton goods would not be wasted, but the profits of manufacturers would be temporarily lowered.*

sense that more commodities are produced than people will consume.

Let us consider the case of a market being over-supplied with some particular commodity. If the American civil war had not occurred, the cotton manufacture of Lancashire would, no doubt, quickly have presented an example of what is commonly called over-production. During the years 1859 and 1860, the Eastern demand for cotton goods was extremely active; prices ruled high, and unusually large profits were realised. Every manufacturer was consequently stimulated to produce on as large a scale as he possibly could. All the existing mills were worked to their utmost, and new mills were rapidly erected. The extra demand which caused these large profits would no doubt soon have been fully supplied. Manufacturers, if we may judge from past experience, would not have sufficiently diminished their production as the additional demand for cotton goods became gradually satisfied; the market therefore would almost certainly have become over-supplied, and the unusual activity which had prevailed in this branch of industry would infallibly have been succeeded by low profits and general dullness of trade. In fact, activity and depression always seem to succeed each other in regular cycles.

Although the market may be thus over-supplied with cotton goods, no one can suppose that these cotton goods will be wasted; there would be no difficulty whatever in selling the goods if they were only offered at a sufficiently low price. These low prices may be very disastrous to the manufacturer, but what he loses is gained, or is saved, by those who purchase cotton goods; there can therefore be no waste—all that happens is simply that the producers of certain commodities miscalculate the extent of the demand when these commodities are offered at a particular price. If the demand is over-estimated, the producers will realise smaller profits than they anticipated. But such an excess of supply can only be temporary, because low profits will check production. The demand for a commodity is determined by its price; raise the price of a commodity, and the quantity of that commodity which will be purchased is at once diminished. But, on the other hand, by sufficiently lowering the price, the quantity of a commodity

which will be purchased may be indefinitely increased. There is a certain average rate of profit which prevails in a country at any particular time. Unless manufacturers and traders hope, on the average of years, to realise a certain rate of profit on their capital, they will not continue their business; they would rather withdraw their capital as speedily as possible, and invest it in other undertakings. A constant tendency is therefore in operation which so regulates the price of commodities that the ordinary rate of profit is, on the average of years, given to each class of producers. If the price of any commodity is more than sufficient to do this, the production of the commodity is stimulated, the supply is increased, and the price of the commodity must fall in order to make the demand meet the increased supply. But whenever the price of any commodity falls so low as to cause a particular branch of industry to be comparatively unremunerative, there exists what is commonly called over-production; such over-production can only be temporary, for the low prices will exert an influence to check the supply of the commodity, and the price of the commodity will soon be raised, so that the producers of it again receive the ordinary rate of profit.

It therefore appears that, however great may be the accumulation of capital, commodities are sure not to be produced so as to be wasted; there will be always persons ready to consume the commodities which are produced, if the price at which they are sold is sufficiently low. Consequently the accumulation of capital, as was pointed out in the last chapter, may reduce profits, but never causes a superfluous production of wealth. Capital may be misapplied and wasted, and when a very low rate of profit prevails, there is always a great temptation, as is proved by every commercial crisis, to squander capital upon useless and unproductive schemes. People become dissatisfied with the small profits of legitimate trade, and therefore recklessly embark in any scheme that affords a prospect of large gain. But such a misapplication of capital, resulting in a waste of wealth, is a very different thing from wealth being produced in such superfluity that it must be wasted for want of consumers. It is true that the investment of capital in unproductive schemes is often prompted

*Low profits may tempt to a misapplication of capital, but not to a superfluous production of wealth.*

BOOK III.  
CH. XIV.

*The extreme case of over-production assumed in the chapter on Capital is imaginary.*

by the prevalence of a low rate of profit. The capital however need not be so invested, for it could still be employed productively; if it were so employed, the supply of commodities would be farther increased, and profits would again decline. This decline in profits would be disadvantageous to the producers; the consumers of the commodities would be benefited, and the wealth of the nation would be increased to the full extent of this additional production.

When discussing the subject of capital the most extreme case of over-production was assumed; for it was supposed that capital went on accumulating so fast, and the production of commodities was so largely increased, that at length the labourers were able to obtain everything which they required. It may be said that if in such a state of things capitalists should continue to accumulate, and labourers continue to labour, additional wealth would be produced, which no one would have any desire to consume; but such a supposition tacitly assumes that men have an uncontrollable desire to labour, and that in fact they labour for labour's sake. This is entirely contrary to the experience of human nature: men labour in order to satisfy their wants, and to provide themselves with the enjoyments of life. Labourers would gladly shorten their hours of toil, if, in consequence of an increased accumulation of capital, the remuneration of labour should ever be so largely augmented that their wages should become sufficient to supply them with all the necessaries and enjoyments of life. It therefore appears that, upon the most extreme hypothesis, there cannot be over-production, in the sense conceived by Malthus, Chalmers, and Sismondi. The fallacies they propounded on this subject were no doubt due to a misinterpretation of the phenomena connected with the low profits which prevail in a trade when there has been an over-production of some particular commodity. Mr J. S. Mill has aptly remarked that any "difference of opinion on the subject of over-production, involves radically different conceptions of political economy, specially in its practical aspect. On the one view we have only to consider how a sufficient production may be combined with the best possible distribution; but on the other, there is a third thing to be

considered—how a market can be created for produce, or how production can be limited to the capabilities of the market. Besides, a theory so essentially self-contradictory cannot intrude itself without carrying confusion into the very heart of the subject, and making it impossible even to conceive with any distinctness many of the more complicated economical workings of society.”

BOOK III.  
CH. XIV.

## CHAPTER XV.

### THE GOLD DISCOVERIES.

BOOK III.  
CH. XV.

*The yield of gold was suddenly trebled by the discoveries in Australia and California.*

WE intend in the present and in the following chapter to trace some of the consequences which have already been, and which are likely in the future to be, produced by the discovery about the years 1848—50 of gold deposits of extraordinary richness in Australia and California, and by the development within the last few years of silver mines of such productiveness that the annual yield of silver in a short time more than doubled. Just prior to the discoveries in Australia and California the annual aggregate yield of gold was not more than 10,000,000*l*. This amount was, however, at once trebled by the additional gold obtained from Australia and California, for during the five years between 1852 and 1857, no less than 10,000,000*l*. of gold was annually yielded by each of these countries. When it was observed that the annual supply of gold was thus suddenly increased threefold many not unreasonably thought that gold would rapidly decline in value. Some even went so far as to predict that this decline would be so great that in the course of a few years gold would be not more valuable than silver. It is at the present time scarcely necessary to remark that these anticipations with regard to a rapid fall in the value of gold have not been fulfilled. Although for reasons which will be presently stated we incline to the opinion that there was for some years after the gold discoveries a moderate decline in the value of gold, yet within the last few years this fall has not only been arrested, but in the opinion of some high authorities the tide has turned in the opposite direction and there has lately been a con-

siderable increase in the value of gold. Mr Goschen<sup>1</sup>, for instance, considers that in consequence of a falling off in the yield of gold in Australia and California, combined with an increased demand for gold owing to the demonetisation of silver in Germany, the resumption of specie payments in the United States and in Italy, and other causes, there has been within the last ten years a rise in the value of gold as shown by a fall in general prices. There can, moreover, be no doubt that the present great increase in the production of silver must, if it continues, exercise an important influence in modifying many of the effects which would result from an increase in the annual supply of gold.

It is manifestly of much importance to a community that the value of the substance which is selected as its money should not be subject to great and sudden fluctuations. If the value of money varies the terms of every monetary transaction become materially changed. If the value of money increases those who have fixed money payments to receive become enriched, and those who have to make them suffer a corresponding loss. If money is depreciated in value the exact reverse takes place, and the recipients of all fixed annuities, such as fundholders, mortgagees, the proprietors of debenture stocks, have a serious loss inflicted on them. The disadvantage which arises from a variation in value of the monetary standard is not to be measured simply by the loss and inconvenience it may cause to individuals. If the substance which is chosen as money were subject to great and frequent changes in value, a most serious impediment would be thrown in the way of commercial development, for it would be hazardous to enter into any transaction which involved deferred money payments. Thus if gold were liable to vary 50 per cent. in value within a short period, a man who had agreed to lease a house at 100*l.* a year might suddenly find that the rent he had to pay had virtually increased 50*l.* a year.

As therefore such serious inconvenience is caused by a change in the value of money it becomes of great importance to endeavour to ascertain whether any effect was pro-

*The value of the substance chosen as money should not be liable to frequent fluctuations.*

<sup>1</sup> See paper read before the Institute of Bankers on Wednesday, April 18, 1883.

BOOK III.  
CH. XV.

*A comparison of prices does not afford an easy means of testing fluctuations in the value of gold.*

duced in depreciating the value of gold in consequence of the large additional supplies that were obtained for some years after the gold discoveries. It will also be important to inquire whether any effect has recently been produced in raising the value of gold, in consequence of a falling off in its supply, accompanied by an increase in the demand produced by causes to which reference has been made.

It may be thought that a comparison of general prices affords ready means of testing whether or not there has been a change in the value of gold. Thus it may be said that if we desire to know whether gold was depreciated by the gold discoveries, all that would be necessary would be to compare general prices just previous to the discoveries with general prices after the discoveries. In a similar way the question whether gold has risen in value in recent years might be determined by ascertaining whether general prices are higher now than they were ten years previously. If however such a comparison is made it will be at once found that it does not afford so easy a means of testing the value of gold as may be in the first instance supposed. Thus, taking the period of twenty years which immediately succeeded the gold discoveries, it will be found that although the prices of many articles advanced, yet the price of other commodities declined. Again, if the period between 1873 and 1883 is taken, it can be shown that although the prices of many commodities have declined, there has been a steady rise in the price of others. This want of uniformity in the movement of prices admits of an obvious explanation; for it is evident that many causes besides a change in the value of gold are in operation to affect the prices of different commodities. Thus ever since the gold discoveries the adoption of free trade and improvements in the means of communication have extended the area from which it is possible to obtain supplies of cheap corn; and consequently, although there has been a steady increase in the home demand for corn to meet the needs of a growing population, this demand has been accompanied by more than a proportionate increase in the foreign supplies, and consequently there has been a decline in the price of corn quite independently of any change in the value of money. On the other hand, with regard to meat and dairy produce, in consequence of the greater difficulty



and cost of importing them, the increased demand cannot be so readily met by foreign importations; and during the entire period which has elapsed since the gold discoveries there has been a steady increase in the price of meat and dairy produce. In arriving at any conclusion with regard to an alteration in the value of money, from a comparison of general prices, it is necessary to take a careful account of the various other causes by which prices may be influenced. Thus during the last ten years a very considerable effect has been produced in lowering the price of many manufactured commodities by the stimulus that was given to excessive production in the period about 1872—4 of exceptional trade activity. The unusually large profits which were then realised in the iron trade and in almost every other branch of manufacturing industry caused the means of production to be greatly increased. When the activity subsided, there was an augmented supply of commodities to meet a diminished demand; consequently it was inevitable that there should be a fall in prices quite independently of the change in the value of gold.

After making due allowance for the circumstances to which reference has just been made, we think it may be concluded that, taking a period of about 20 years succeeding the gold discoveries, there was a depreciation in the value of gold. This conclusion is chiefly based upon the arguments contained in a series of essays on the gold question by the late Professor Cairnes<sup>1</sup>, and upon an elaborate investigation by the late Prof. Jevons. Prof. Jevons compared the average prices of many hundreds of commodities after the gold discoveries, with their prices previous to 1848. He also, with the utmost care, made allowance for the influence which might have been exerted upon the price of any particular commodity by causes independent of a change in the value of gold. The result of his investigations proves that there was a rise in general prices amounting to 10 or 15 per cent.

It may seem that there is yet another method of investigation, which will conclusively decide the question as to whether the value of gold was, or was not, depreciated. Thus it may be said, that in a previous chapter of this

*The rise in general prices is estimated, by the best authorities, as from 10 to 15 per cent.*

<sup>1</sup> *Essays in Political Economy Theoretical and Applied.* By the late Prof. J. E. Cairnes.

BOOK III.  
CH. XV.

*It might be supposed that, if gold had fallen in value, mines would have gone out of work.*

*This is not conclusive, because mining profits are unsteady and partake of the nature of a lottery.*

*They are worked when the average profits are extremely low.*

work, the value of gold as well as of all other mineral produce was stated to be regulated by laws similar to those which determine the value of agricultural produce. If the value, or price of agricultural produce declines, the worst land in cultivation will cease to return any profit, and will consequently be thrown out of tillage. In the same way, if the value of mineral produce declines, the profits resulting from mining industry will be diminished, and many of the least productive mines will cease to be worked. It may therefore be thought that many of the least productive gold mines must during the period referred to have been relinquished if the value of gold had been depreciated by the discoveries in Australia and California. It does not, however, appear that gold mines in other parts of the world were thus relinquished.

The evidence, however, which is derived from the consideration just mentioned, is not as conclusive as at first sight it may appear to be. We think it necessary thus to caution our readers, because it must be borne in mind that mining industry, and especially gold mining, is far more speculative and uncertain than agriculture. A decline in the price of agricultural produce almost immediately affects the rent which farmers will consent to pay. Each farmer can very approximately calculate the profit which he will be able to realise, and he will refuse to rent his farm, unless he considers that he will be able to obtain an adequate return for his labour and capital. No such precise calculation can, however, be made with regard to the profits which a mine is likely to yield. The discovery of a new lode may, in a few months, vastly increase the profits and value of a mine. Even in our own country it has frequently happened that a copper or tin mine has in a short time increased in value a hundredfold. Mining therefore resembles a lottery; those consequently who are engaged in mining industry do not, and cannot, accurately calculate the profits which are likely to be realised. The chance of obtaining a great prize is the real motive which prompts mining enterprise. Thus, we believe it can be shown that the profit realised on the aggregate capital invested in copper and tin mines in Cornwall has never amounted to as much as one per cent. even at the time when mining industry was at its most prosperous condi-

tion. People, however, continue freely to invest their capital in this unremunerative industry, as long as they observe that a mine here and there has been so successful that 100% originally invested in it would realise an income of many hundreds a year. People in a similar way were attracted to the gold fields by the intelligence of great and successful 'finds,' and they seldom calculate what is the average profit realised by each person employed upon a gold field. It therefore appears that the supply of gold may not immediately be much affected by a slight depreciation in its value; a continuance of the depreciation must, however, after a time diminish the supply. Hence a depreciation in the value of gold is spontaneously retarded, because a depreciation in value exerts a tendency to decrease the supply of gold, and a diminution in the supply at the same time exerts a tendency to increase its value.

The absorption of such large additional supplies of gold, without producing any greater depreciation in its value than that to which we have referred, affords conclusive evidence of some very important results which were produced by the gold discoveries. It has already been stated that these discoveries increased the annual supply of gold more than threefold, and it is evident that this large augmentation in the supply must have been accompanied by a very considerable decline in value, unless there had arisen an increased demand for gold at the time when these additional supplies were forthcoming. It can be readily shown that many circumstances combined greatly to increase the demand for gold just at the time when the discoveries of gold were made in Australia and California. It is, for instance, deserving of special remark that the great increase in the supply of gold coincided with the commencement of a new era in the commerce of this country. About that time the Navigation Laws were repealed, and with the adoption of this measure the principles of free trade were applied to our entire commercial system. Our trade and industry, being thus released from the trammels of protective duties, at once showed a most extraordinary development. This commercial development was also powerfully aided by the great extension of railways which took place about that time, and by the

*The large supplies of gold received have prevented a disarrangement of the finances of the country.*

*This is owing to the fact that the*

## BOOK III.

## CH. XV.

*gold discoveries coincided with the commencement of a new era in commerce.*

increased application of steam as a motive power to various branches of industry. Our exports in twelve years, from 1848-60, advanced from 60,000,000*l.* to 135,000,000*l.*, and our imports exhibited a corresponding increase. This increase in trade was maintained, and in 1874 the exports amounted to 250,000,000*l.*, and the imports to 350,000,000*l.* In 1847 we imported about 500,000,000 lbs. of cotton, and 55,000,000 lbs. of tea; in 1856 we imported more than 1,000,000,000 lbs. of cotton, and nearly 90,000,000 lbs. of tea. This expansion of our trade and commerce was as sudden as it was great; for it is an instructive fact, that the trade of this country seemed to be in a stationary state for several years previous to the introduction of free trade. Our exports and imports had, since the conclusion of the war in 1815, shown a progressive increase; but about the year 1838, until the establishment of free trade, they remained almost stationary. It is quite evident that such a sudden development of trade and commerce would require a larger amount of money to be brought into circulation; for, as the wealth of the country increased, a greater number of commodities would be each year bought and sold for money, and more money would also be required because the population was more numerous. Again, more money was wanted in order to pay the wages of the labourers; for our exports could not advance from 60,000,000*l.* to 250,000,000*l.* without the amount paid in wages being greatly increased. It therefore appears, that the sudden development of our trade and commerce about the year 1850, created a demand for a greater quantity of money to be brought into circulation.

*If the gold had not been discovered, there must have been a decline in prices.*

If no new supplies of gold had been forthcoming, this additional demand for gold must have inevitably caused a sudden rise in its value. The extent of this rise might have been very considerable, and those consequences would have ensued which have been already described. Every one who had a fixed money-payment to make would have found this payment greatly increased, and the real burden of the national debt would have been augmented in exact proportion to the increase in the value of gold. The extent to which the value of gold might have risen can be best understood by reflecting on the large quantities of gold which have been poured into this country without

producing a greater depreciation in its value than has actually taken place. It therefore may be regarded as conclusively proved that the gold discoveries were made at a most opportune time, and that they averted a very serious evil; for, if we had been left to the old sources of supply for obtaining gold, commerce could not have expanded as it did without a large and sudden fall in general prices.

Although almost the whole of the Australian gold and a very considerable portion of the gold produced in California is, in the first instance, sent to England, yet England retains only a comparatively small part of this gold for her own use. The gold is re-exported, and has no doubt been partly employed, as it has been in England, in meeting the wants of increasing trade. The extraordinary development of commerce, to which reference has just been made, has by no means been confined to England, for the last five and thirty years may be regarded as a period of general and unprecedented industrial progress. More money was required in order to carry on this expanding trade, and consequently there was a general increase in the demand for the precious metals. It may however be thought that there would have been a much greater increase in the demand for silver than in the demand for gold, because at the time of the gold discoveries many more countries used silver as a standard of value than gold. For some time after the gold discoveries there was little increase in the supply of silver, and consequently many were led to the conclusion that silver, when compared with gold, would rapidly advance in value. There were also other considerations which seemed to warrant the opinion that there would be a rapid rise in the value of silver. Soon after the Indian Mutiny there was a large and continuous export of silver to India. In some years the amount exported was not less than 17,000,000*l*. A considerable amount of this silver was sent to India in payment for the largely increased quantities of cotton which were purchased from India by England during the American civil war. About this period also loans on a great scale were raised in England for the construction of public works in India. No less a sum than 90,000,000*l*. was raised in Eng-

*The expansion of trade has not been confined to England, but has been universal, causing a greatly increased demand for the precious metals.*

BOOK III.  
CH. XV.

*The increased demand for silver in the East was met by withdrawing silver from the circulation of other countries, such as France: the place of the silver thus withdrawn being taken by gold.*

*In recent years the annual supply of gold has declined while that of silver has largely increased.*

land for Indian railways. A portion of this amount was expended in England in the purchase of plant and material. It has, however, been calculated that considerably more than half the entire amount was sent to India in the form of silver to pay the wages of those employed in making the railways, and for other purposes. As there was then no increase in the production of silver in any way commensurate with this large increase in the demand, it is evident that the additional silver which was required to supply this export of silver to the East, must have been to a great extent provided from the stocks of silver already existing. It has, in fact, been ascertained that great quantities of silver were taken from the currencies of France, Germany, and other continental countries, to supply this export to the East. The void thus created in the silver currency was to some extent filled up by the more extensive use of gold, and by the issue of a paper currency of small value. This increased use of gold indicates another source of absorption of the additional supplies which were obtained from Australia and California, and consequently, as gold was ready to take the place of the silver which was sent away, this great increase in the demand for silver was not only met without any marked rise in its value, but the additional demand for silver, by creating an additional demand for gold, exercised a very important influence in maintaining the value of gold.

During the last few years, as previously indicated, several circumstances have come into operation which have exerted an influence upon the value of gold and silver respectively, exactly in the opposite direction to the influence that was exerted for some years after the gold discoveries. It has been shown that many circumstances then combined to lower the value of gold and to increase the value of silver: but within the last few years there has been a considerable falling off in the annual yield of gold and a very great increase in the supply of silver. In consequence of many countries demonetising silver there has been an increased demand for gold and a smaller demand for silver, and consequently the value of silver when compared with gold has become considerably depreciated. This depreciation has been shown by a fall in the price of silver from 60*d.* to 50*d.*

an ounce. We shall in the next chapter consider some of the effects which have been produced by this fall in the value of silver. We have, however, now to consider whether the circumstances, to which reference has just been made, have increased the value of gold not only compared with silver, but have also increased its value when compared with general commodities. As previously stated, so high an authority as Mr Goschen considers there has been already a considerable rise in the value of gold, and that many circumstances lead to the conclusion that this rise may continue. It appears that the evidence on which Mr Goschen chiefly relies is the decline in general prices during the last ten years; but reasons have been already stated to show that great care ought to be exercised before this can be accepted as a conclusive test. Much stress is also laid upon the extent to which the demand for gold has lately been increased in consequence of the resumption of specie payments by the United States and Italy, and by the demonetisation of silver in Germany and other countries<sup>1</sup>. It must, however, be borne in mind that although the amount of money which a country requires to keep in circulation may be affected by the increase in its wealth and population, yet in the general progress of commerce many agencies are sure to be brought into operation to economise the use of money. Thus with the extension of banking facilities many transactions are carried on by cheques which previously required the use of money; and it has been shown that with the increased use of bills of exchange, telegraph transfers, and other instruments of credit, there may be a great increase in home and foreign trade without necessitating a proportionate increase of gold and silver. In view of all these circumstances it is extremely difficult to arrive at a positive opinion as to whether there has been a rise in the value of gold during the last ten years; we are, however, inclined to think that although the depreciation in the value of gold which had previously taken place has been arrested, yet there has

*Has there been an appreciation in the value of gold?*

<sup>1</sup> Mr Goschen estimates that this extra demand for gold has absorbed about 200,000,000*l.* during the last ten years, but an able article in the *Economist* (May 12th, 1883) adduces some reasons to show that this is too high an estimate and that the amount absorbed cannot be as much as 139,000,000*l.*

been up to the present time no marked rise in its value.

In order to show the difficulty of making any positive prediction with regard to the future value of gold it is only necessary to refer to some of the many circumstances upon which its value depends. Thus, for instance, it is impossible to ascertain what will be the annual production of gold a few years hence: new gold mines may be discovered, and the most contradictory opinions prevail about the future yield of gold from the existing mines. Although at the present time the Australian and Californian gold fields are much less productive than they were soon after their first discovery, yet there are many who suppose that the yield of gold will again increase as gold mining becomes more systematically carried on and as improved machinery is applied to quartz-crushing. As an illustration of the difficulty of foretelling with certainty anything about the future production of gold and silver, it may be mentioned, as already stated, that only a few years since, there seemed to be good reason to conclude that silver would considerably increase in value when compared with gold. There was a large additional demand for silver, and there was but a very slight increase in the annual yield of silver to meet this additional demand. The discovery, however, of rich silver mines in Nevada, and other parts of the United States, at once greatly increased the supply of silver. Many events have at the same time happened, to which we shall presently more specially refer, which have caused this additional supply of silver to be accompanied by a considerable falling off in the demand. It has consequently happened that instead of silver increasing in value, it has greatly fallen in value, when compared with gold. It also deserves to be particularly noticed that the discovery of these mines in Nevada will exercise an important direct influence upon the annual production of gold. It is a well known fact that a certain amount of gold is almost always contained in silver ore. In the Mexican and South American mines, from which the largest portion of silver was formerly obtained, gold existed only in very inconsiderable quantities; in the mines of Nevada, however, the ore contains so much gold, that nearly 45 per cent. in value of their entire produce consists of gold; or in other words, 100*l.* worth of

*The silver mines of Nevada contain a large proportion of gold: they could be*



ore contains 55*l.* worth of silver, and 45*l.* worth of gold<sup>1</sup>. Although the other silver mines in the United States are not as rich in gold as the Nevada mines, yet it is calculated that at least 33 per cent. in value of the produce of the mines consists of gold. As the silver mines of the United States have often produced not less than 10,000,000*l.* of silver during a single year, it follows that more than 3,000,000*l.* of gold was also produced at the same time; this is an important addition to the annual yield of gold, and as many people think that these mines in the United States are only in the infancy of their development, it may not impossibly happen that the amount of gold obtained from this source may very considerably increase.

In view of the uncertainty with regard to the future value of gold and silver it is of great importance that arrangements should as far as possible be avoided which are based on the supposition that gold and silver will never vary in value. We shall in the next chapter show the very serious embarrassment which is felt by the government and the people of India, in consequence of the depreciation of silver which has already taken place. A considerable portion of the inconvenience that will be caused to India by a fall in the value of silver might, as we shall hereafter explain, have been averted; and although a change in the value of the substance chosen as money must produce great inconvenience, yet the amount of this

BOOK III.  
CH. XV.

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<sup>1</sup> The large proportion of gold contained in the silver ore in these Nevada mines, may exercise a very important influence in determining the future value of silver. It has been stated that in one of these mines, on the Comstock lode, 17,000,000 dollars worth of gold and silver were in one year (1875) raised at a cost of about 5,000,000 dollars, and consequently the mine yielded a profit in that year of 12,000,000 dollars. Assuming that 45 per cent. in value of the entire quantity of metal produced was gold, it would appear that rather more than 8,000,000 dollars worth of gold was produced in this mine in one year. If, therefore, it is remembered that the entire cost of working the mine was stated to be 5,000,000 dollars, it is evident that the gold contained in the ore would yield a very large profit on the outlay. It would therefore seem that these mines would be highly remunerative even if silver were reduced in value to a mere nominal amount. The mine would in fact have realised a profit of 100 per cent., if the 9,000,000 dollars worth of silver had only been sold for 2,000,000 dollars, or, in other words, if silver realised little more than 1*s.* an ounce. Most interesting information on the supply of silver and its probable effect on the supply of gold is to be found in the evidence given before the Select Committee of the House of Commons on the Depreciation of Silver which sat in 1876.

BOOK III.  
CH. XV.

*Influence  
of the gold  
discoveries  
upon the  
exporting  
countries.*

*Australia  
was pre-  
viously  
rich in  
land, but  
poor in  
labour and  
capital.*

*The gold  
discoveries  
attracted  
labour and  
capital,*

inconvenience may be diminished if proper precautions are taken, and if people as far as possible avoid entering into arrangements on the supposition that the value of the precious metals will always remain stationary.

We have now considered the influence that has been, and is yet likely to be, exerted on prices by the gold discoveries; we will now proceed to describe the effects which these discoveries have produced upon the countries in which they have been made. We will, for the sake of convenience, chiefly confine our attention to a description of the economic progress of Australia; for at the time of the gold discoveries, the commercial condition of Australia so much resembled that of California, that the remarks made with regard to the one country, will equally apply to the other.

It has been previously stated, that of the three requisites of production—viz. land, labour, and capital—a young colony such as Australia possesses the first in an eminent degree; for long previous to the gold discoveries, the great natural resources of Australia were known, but it was impossible, in consequence of a deficiency in the supply of labour, to make these resources adequately productive. Her pastures, for instance, grazed enormous flocks of sheep; the population of the colony was, however, so small that these sheep were almost worthless except for their wool. An abundance of fertile land could be purchased at almost a nominal price; but previous to 1848, comparatively very few emigrants went to Australia; consequently two of the requisites of production—namely, capital and labour—were wanting, and the progress of the colony was extremely slow. But directly it became known that rich deposits of gold had been discovered, thousands of emigrants were immediately attracted to Australia. This additional supply of labour exerted no immediate effect upon the development of the other resources of the country; in fact, her general industry was, in the first instance, seriously interfered with, for a great proportion of the labourers of the colony were attracted to the gold fields. Shepherds left their flocks, and almost every class of the community for a time relinquished their ordinary avocations. The whole economy of the nation was quickly thrown into a state of confusion; it was, however, soon discovered, that the average

profits realised in the gold-fields were not greater than the profits which could be obtained from many other employments. A considerable amount of labour was therefore rapidly withdrawn from the gold-diggings, and returned to agriculture and other industrial pursuits. There was, moreover, a large population at the gold fields, whose wants had to be supplied. This new demand so increased the wealth of the colony, that meat which before could only be sold at a nominal price, soon realised 3*d.* and 4*d.* a pound in the Melbourne market. Wealth was rapidly made, and a large amount of capital was saved. The high rate of profit which prevailed in the country attracted capital from England; Australia in this way suddenly obtained the two remaining requisites of production—namely capital and labour—and she consequently advanced in commercial prosperity with wonderful rapidity.

It therefore appears that the gold discoveries exerted a special influence in promoting the industrial progress of Australia. We have, however, been anxious to explain, that the benefit thus conferred is not due to the realisation of an exceptionally high rate of profit in gold-digging. No doubt some of the Australian gold-diggers made great gains; but, when the average earnings are estimated, it is found that gold-digging is not more remunerative than other branches of industry. For instance, when agricultural wages were 40*s.* or 50*s.* a week in Australia, it was calculated that the average earnings of those engaged in many of the gold-fields did not exceed 35*s.* a week. But the discovery of gold confers a special benefit upon a colony; because no other circumstance exerts so powerful an influence in attracting emigrants; the reason of this is very obvious.

In the first place it may be remarked, that in a hazardous speculation such as gold-digging, the instances of great success are brought into far greater prominence than the cases of failure. The same feelings which induce people eagerly to enter a lottery, attract them to an employment which offers chances of great gain. It must also be borne in mind, that gold-digging is not impeded by those obstacles which, in a young colony, retard the progress of almost every other kind of industry. Land cannot, for instance, be profitably cultivated in a young

*although the rate of profit in gold mining was not exceptionally high.*

*Gold mining partakes of the nature of a lottery, and is therefore very attractive.*

BOOK III.  
CH. XV.

colony, until roads have been made, and until there is a town population in the colony itself to purchase the produce. Manufacturing industry cannot be carried on with success, because labour is so dear. Moreover, all mining operations except gold-digging require a great expenditure of labour and capital. Expensive machinery has to be constructed, and the produce raised is bulky, and therefore the cost of conveying it to market is extremely great. Australia is, no doubt, very rich in other minerals besides gold; many of her copper mines are far more productive than those which have yielded large profits in Cornwall; but one single fact will show the difficulty of working an Australian mine with advantage. The price charged for bringing the ore from an Australian mine called the North Rhine Copper Mine, to port, was 5*l.* a ton, whereas the average price which the smelters pay for English copper ore does not exceed this amount.

*whilst it  
requires  
little capi-  
tal.*

When gold was first discovered in Australia, it was chiefly found in alluvial deposits near the surface, consequently the gold-digger required little capital except a few simple tools, and sufficient money to pay his passage out; and therefore, in embarking in this industry, he risked little more than a certain amount of time and labour. It therefore need not be a matter of surprise that the gold discoveries immediately attracted thousands of emigrants to Australia; the labour which she required was thus supplied, and her future progress was consequently insured.

## CHAPTER XVI.<sup>1</sup>

### THE DEPRECIATION IN THE VALUE OF SILVER.

**T**HE depreciation in the value of silver which has already occurred is likely to produce consequences of so much practical importance, that it is desirable to devote a separate chapter to the subject. The depreciation has been so rapid that, as previously remarked, silver within a few years has fallen nearly 20 per cent. in value, when compared with gold; the depreciation was so sudden that in six months between January and July 1876, silver fell from 56*d.* to 48*d.* an ounce. After what has been said in reference to the absorption of the increased supplies of gold, the question is at once suggested—How did it happen that an increase of 300 per cent. in the annual production of gold produced comparatively so little effect on its value; whereas a much smaller increase in the annual yield of silver has been accompanied by so great and rapid a depreciation as that which has just been described?

It was shown in the last chapter that contemporaneously with the increase in the supply of gold, various circumstances came into operation to augment the demand for gold. Amongst the prominent causes which increased the demand for gold, it may be sufficient here to enumerate—

1st. The rapid development of commerce.

2ndly. The considerable displacement of silver by gold in the currencies of many countries.

<sup>1</sup> Many of the facts on which the conclusions of this chapter are based are taken from the Report of the Select Committee appointed in 1876, to inquire into the causes of the depreciation of silver, and from the evidence taken by that Committee.

BOOK III.  
CH. XVI.

*The recent increase in the production of silver has been much less than was the increase in the production of gold in 1848-51. Yet the fall in the value of silver has been much more marked than was the fall in the value of gold.*

*The gold discoveries were accompanied by a great increase in the demand for gold: the silver discoveries, on the contrary, have been accompanied by a considerable falling off in the demand for silver.*

3rdly. A large export of silver to the East between 1860 and 1870, causing a new field for the employment of gold in those countries from which this silver was withdrawn.

These and other circumstances are sufficient to show how greatly the demand for gold has increased, since its supply was augmented by the discoveries in Australia and California. What, however, has happened with regard to silver, affords a most striking contrast to that which occurred in reference to gold. The great addition in the supply of silver has taken place since 1870. Previous to that time there had been for twenty years no marked increase in the annual production of silver.

From 1852 to 1862 the annual production is estimated to have ranged between 8,000,000*l.* and 9,000,000*l.*

From 1862 to 1867 it varied from 9,000,000*l.* to 10,800,000*l.*

From 1868 to 1870 the production was somewhat lower.

After this date the production rapidly sprang up, until in 1875 it reached 15,000,000*l.* It therefore appears that nearly twice as much silver was produced in 1875 as was annually produced on the average between the years 1852 and 1862. This great production of silver in the United States is an almost entirely new source of supply; for about 20 years ago her annual yield of silver was only 25,000*l.*, and within six years the production increased from 2,325,000*l.* in 1869, to 8,000,000 in 1875. The yield of silver in the United States during the year 1882 was £9,360,000. Great as is this increase in the production of silver, it is not, as already shown in the last chapter, so great as was the addition made to the annual supply of gold by the discoveries in Australia and California. But, whereas these discoveries were accompanied by an important increase in the demand for gold, it can be shown that this large increase in the supply of silver has taken place at the very time when there has been a most important falling off in the demand in those countries which had previously absorbed the greatest quantity of silver. We will proceed to explain the chief causes which have produced this diminution in the demand for silver. It was necessary to allude to some of these causes in the last chapter, in order to show the influence which they had

exerted on the demand for gold. It will however be desirable to consider the subject here in greater detail.

The demonetisation of silver in Germany has exerted a considerable influence in lowering the value of silver, for it caused the German Government to become a seller instead of a buyer of silver. It has been calculated that the amount of silver in circulation in Germany in December, 1871, before the demonetisation began, was 60,000,000*l*. A considerable amount of silver would be annually required to maintain so large an amount of coinage. Although various estimates have been given of the amount of the subsidiary silver coinage which Germany still requires now that the demonetisation of silver has been completed, yet it may be safely assumed that the amount will not be more than half that which was previously in circulation. Germany sold a quantity of her surplus silver, and the effect of these sales upon the value of silver has been greatly increased from the fact that they took place contemporaneously with the large augmentation in the supply of silver from the mines in the United States.

A policy similar to that which has been pursued in Germany has been carried out in the Scandinavian kingdoms. A gold currency has gradually taken the place of the silver currency. The consequence of this has been, not merely to throw a certain amount of silver (estimated at 2,000,000*l*.) into the market, but to diminish the demand which these countries have hitherto had for silver. Austria has also been contracting the amount of her silver currency, replacing it in part by gold; as a result of this she has been able to dispose of 4,000,000*l*. of silver between the years 1872—75. As long ago as 1865 Italy, France, Belgium, Switzerland and Greece, formed a monetary combination, which is known as the Latin Monetary Union; the action of this Union and that of Holland has been to limit as far as possible the coinage of silver. Although France is a member of the Union, for a few years after the conclusion of the war she adopted such vigorous measures to replenish her stock of silver, that between 1872 and 1876 she coined on an average more than 3,000,000*l*. of silver each year; this however was only a temporary demand, for during the next four years her coinage of silver only averaged about 200,000*l*. a year. In England no

BOOK III.  
CH. XVI.

*The demonetisation of silver in Germany has been one of the causes of the decline in the price of silver.*

*Silver has also been demonetised in the Scandinavian kingdoms.*

*The Latin Monetary Union has caused the amount of silver coinage to be contracted.*

*France, however, coined very large quantities of silver after the*

BOOK III.  
CH. XVI.

*end of the war of 1870—1. But this exceptionally large demand for silver on the part of France was only temporary. The demand for silver in Europe is likely very considerably to decline.*

*The quantity of silver required in the United States consequent on the resumption of specie payments will about absorb the silver set free by the demonetisation of silver in Germany.*

change has been introduced into our currency, and consequently no important alteration in the demand for silver has taken place. The amount of silver annually required for arts and manufactures, is comparatively speaking so small, and fluctuates so little from year to year, that it exercises little influence on the value of silver<sup>1</sup>. The resumption of specie payments which has just (1883) taken place in Italy will increase her demand for silver, and a similar cause may also increase the demand of other European countries, such as Russia, should they also abandon their inconvertible paper currency. It seems, however, certain that whatever influence may thus be exerted in increasing the demand for silver, it must be small compared with the effect produced by the demonetisation of silver; consequently with regard to Europe the demand for silver is more likely to diminish than to increase.

In the United States, where the great increase in the production of silver has taken place, the withdrawal of the small paper money necessitates the use of a considerable quantity of silver coinage to replace it. It is difficult accurately to estimate how much silver may be absorbed for this purpose; but after a very careful investigation of this question by the committee which was appointed to consider the causes which produced the depreciation of the value of silver, it was concluded that the amount required by the United States would be probably about equal to the quantity of silver which has been set free by the demonetisation of silver in Germany. There is likely to be no increased demand for silver in other parts of America, and it would therefore appear, assuming that the amount of silver which Germany had to spare was sufficient to meet the additional demand for silver in the United States, that it is impossible to discover either in Europe or America any indication that the large increase in the supply of silver is likely to be met by a corresponding increase in the demand. It would therefore seem that two

<sup>1</sup> The amount of silver-plate manufactured in England, and retained for home use, was of the value of

181,250*l.* in 1852,  
182,500*l.* in 1874,  
191,500*l.* in 1875,

In the year ending 28th May, 1883, the amount was about 200,000*l.*



powerful sets of circumstances have acted simultaneously to depreciate the value of silver: 1st, an increase in the supply, and 2ndly, a falling off in the demand.

One of the chief causes which has produced the depreciation in the value of silver is the falling off in the demand for silver in India during recent years. India formerly absorbed far more silver than any other country. During the eight years previous to 1867 the annual import of silver into India in excess of the export was 15,000,000*l*. During the next four years it declined to an annual average of rather more than 7,000,000*l*. and during the last ten years it has averaged somewhat less than 4,500,000*l*.

It would therefore appear from these figures that India, some years since, absorbed far more silver than the amount annually produced, and consequently her demand for silver was partly met by drawing upon the silver currencies of France and other countries which had a silver standard. Now, however, the supply of silver is so much increased, and the demand of India is so much diminished, that assuming the annual production of silver to be 15,000,000*l*., she only takes less than one-third of this amount. This striking diminution in the demand for silver in the country which recently was by far the largest purchaser of silver, must evidently produce so marked an influence on its value, that it becomes of the first importance to consider to what circumstance this falling off in the demand is due, with the view of ascertaining whether it is likely to be permanent.

The causes which have produced the falling off in the export of silver to India were carefully investigated by the select committee on the depreciation of silver, and the following conclusions were arrived at:—

"1st. That the total remittances actually made to India in Government bills and treasure together in the ordinary course of business have declined, but only on a slight scale.

"2nd. That except for other causes, and excluding the extraordinary years of the cotton famine, there is no evidence to show that the demand for silver would have materially fallen.

"3rd. But that the supply of a different form of re-

BOOK III.  
CH. XVI.

*The increased production of silver is taking place simultaneously with a great decline in the demand.*

*This diminished demand for silver very marked in India.*

*India formerly absorbed more silver than was annually produced, she now takes only about one-fourth of the annual production.*

*Examination of the causes which have produced the decline in the demand for silver in India.*

mittance, namely, Government Bills, has superseded to a great extent the necessity of remitting bullion.

"4th. That the effect of this cause has to be measured in very large figures, as the yearly amount payable by India for the disbursements of the Home Government has risen since the Indian mutiny from 5,000,000*l.* to 15,000,000*l.*, a difference of which the magnitude will be appreciated when it is remembered that it is considerably more than half of the total amount of silver annually produced.

"5th. That the full effect of this substitution has only been recently felt, as that effect was retarded by the construction of the Indian railways, which involved an expenditure in India of money raised in England, counterbalancing therefore an equal amount of expenditure in England of money raised in India.

"6th. That the amount of the disbursements which has just been stated appears to represent the present normal expenditure of the Home Government, and that therefore, unless by some marked change of policy, no diminution of that amount can be looked for." *Report*, p. xxxvi.

It would therefore appear that although the exports from India exceed in value her imports by an amount varying between 17,000,000*l.* and 21,000,000*l.* a year, yet only a small portion of this balance, amounting on the average of the last ten years to between 4,000,000*l.* and 5,000,000*l.*, has to be liquidated by a transmission of silver to India, because India is in her turn indebted to England to the extent of 15,000,000*l.* annually for payments which her government has to make in England. The amount of specie which India has annually to receive to adjust her balance of trade is also diminished by the increasing proportion of the income of Indian officers, officials and other English residents in India, which is transmitted to, or spent in, England. In consequence of the greater facilities for travelling, English residents in India visit England much more frequently than formerly; their wives and families are also often resident in England; in fact, India is not now looked upon as a home by Englishmen, but is regarded simply as a place to reside in for a few years with the object of saving as much money as possible to be invested and spent in England. It has also been ascertained that a much smaller amount of the Indian

*The indebtedness of India to England has rapidly increased.*

debt is now held in India than formerly. The natives of India show a growing disinclination to invest in Government securities; before the East India Company was abolished, a system prevailed of what were called 'open loans': money could be brought at any time to the Government treasury and deposited at a fixed rate of interest. Although there may be a disadvantage in a government borrowing money when it is not actually required, yet these 'open loans' seemed well adapted to the circumstances of the country; and they undoubtedly induced the natives to entrust their money much more readily to the Government than they do at the present time. These 'open loans' formed a sort of savings-bank, and were advantageous both from a financial and political point of view: if they had been continued the amount of money which now has annually to be remitted to the Home Government would be much less than it is; it is moreover of great importance to encourage such investment on the part of the natives, because they are thus made to feel a direct pecuniary interest in the stability of the British Government in India.

It has now been clearly shown that the increase in the Indian Home charges has been the cause which has produced the greatest influence in diminishing the import of silver into India. At the present time there seems to be little probability that these Home charges will diminish; but, on the contrary, many causes are in operation which are likely to make them increase. The Indian Government is constantly borrowing money in England for railways, irrigation schemes, and other public works in India. As this money is borrowed in England, the interest will have to be remitted from India, and will, consequently, represent a permanent addition to the Home charges. Loans are also from time to time raised to meet some exceptional charge, such for instance as the expenditure on the late famines in Bengal and Madras; it also not unfrequently happens that the ordinary expenditure in India exceeds her ordinary revenue, and the deficit has to be made good by borrowing money in England. We therefore arrive at the conclusion, that the circumstances which have in recent years produced such a marked falling off in the export of silver to India, are likely for some time

*The Home charges appear likely to increase rather than to diminish.*

BOOK III.  
CH. XVI.

*The depreciation in silver may be estimated in two ways: first, by comparing it with gold, or secondly, by considering its general purchasing power.*

to come to exert at least as much, and probably more, influence in the future.

It is, however, of great importance to explain that if the depreciation in silver continues, an economic agency must be brought into operation, which will exercise a very decided influence upon the transmission of silver to India.

It will be observed that in the course of these remarks the depreciation in silver has been estimated by considering what has been the decline in its value when compared with gold; we have not measured its depreciation by considering whether there has been a decline in its purchasing power, or whether there has been a general rise in prices in those countries, such as India, which have a silver standard. It is essential to bear carefully in mind the two different points of view from which the depreciation in the value of silver may be considered. If a depreciation in the value of silver is estimated by a decline in its purchasing power, or by a rise in general prices in those countries which have a silver standard, it is evident that there may be a great depreciation in silver without any change whatever in its value when compared with gold, or in its price estimated in gold. Thus, suppose there should be simultaneously a great increase in the supply of gold and silver, and that this increase should be much greater than any increase in the demand for these metals: gold and silver would as a consequence both decline in value, and this decline in value would be shown by a general rise in prices in all countries, whether they had a gold or a silver standard. If, however, the supply of gold was increased proportionately much more than that of silver, gold might be depreciated much more than silver. There would consequently be a greater rise in prices in those countries which had a gold standard than in those which had a silver standard; the rise might be 50 per cent. in the former instance, and 20 per cent. in the latter; and, therefore, although silver estimated by its general purchasing power would be depreciated to this extent, yet its value when compared with gold would have increased, and its price estimated in gold would have risen. As a verification of the conclusion at which we have just arrived, it can be shown that, although there was a great depreciation in the value of both gold and silver after the discovery

of America, yet gold was more depreciated than silver, and consequently the depreciation of silver, or the decline in its purchasing power, was accompanied by an increase in its value as compared with gold, as was shown by a rise in its price when estimated in gold. Dr Soetbeer, who has made the most elaborate investigation into the relative values of gold and silver at different historical periods, has shown that gold was, during the middle ages, about 16 times more valuable than the same weight of silver. If, therefore, it is assumed that there are four sovereigns in an ounce of gold, the price of silver would at that time have been 5*s.* an ounce. After the discovery of America, it is shown by the same authority that gold was only 10½ times more valuable than silver, and consequently the price of silver would then be about 7*s.* 9*d.* an ounce. Consequently a great depreciation in the value or general purchasing power of gold and silver was accompanied by a rise of more than 50 per cent. in the price of silver. Dr Soetbeer remarks that after this period there was little change in the relative value of gold and silver until the beginning of the 17th century. After that time gold began to rise again in value, and by the end of the 17th century the proportion had become 1 to 15. There was very little variation from this figure in the comparative value of gold and silver until quite recently; for silver never exchanged for gold in a less proportion than 16 to 1, and never in a higher proportion than 15 to 1. The recent fall in the price of silver to 50*d.* an ounce shows that silver at the present time exchanges for gold in the proportion of about 19 to 1.

It has thus been shown that a great fall in the price of silver, or a great change in its value when compared with gold, need not necessarily be accompanied by a depreciation in its value estimated by a decline in its purchasing power, and it therefore becomes of great importance to inquire whether the fall in the price of silver to 50*d.* an ounce has produced a decline in the purchasing power of silver in India, where silver is used as the general standard of value. On this point there seems to be conclusive evidence that up to the present time no such decline in the purchasing power of silver has taken place in India. If such a decline had occurred general prices in that country must

BOOK III.  
CH. XVI.

*Relative  
value of  
gold and  
silver in  
different  
historical  
periods.*

*Up to the  
present  
time there  
has been  
no decline*

BOOK III.  
CH. XVI.

*in the purchasing power of silver in India.*

have advanced, whereas there seems to be no doubt that during the last few years when silver has been falling in price, general prices have not advanced in India. This fact, which may at first sight seem difficult to account for, admits, we think, of an easy explanation. Allusion has already been made to the great amount of silver which was imported into India from the time of the mutiny until about 1870, and special attention has also been directed to the remarkable diminution in this import of silver which has taken place during the last ten years. It was conclusively established, by the evidence which was given before the select committee on Indian Finance which sat in 1871-2-3, that the importation of this great quantity of silver into India had produced a very marked depreciation in its value, which was shown by a general rise in prices. The rise was estimated by many competent authorities to be as much as 30 or 40 per cent. It was also established that this rise in prices was checked so soon as the import of silver began to diminish; and it is only natural to find that as during the last ten years, the net import of silver has averaged a little under 4,500,000*l.*, the rise in prices which occurred when 15,000,000*l.* of silver were annually imported has not been maintained, but has been succeeded by a slight fall in prices.

*This decline in the purchasing power of silver in India must however inevitably take place, if the present low price of silver continues.*

We have now, however, to consider what is likely to be the future effect on prices in India, if the value of silver compared with gold continues to be as much depreciated as it is at the present time. Assuming that no effect has yet been produced in raising prices in India, by this fall in the value of silver when compared with gold, it can be easily shown that as long as this state of things continues, it will become, with each fall in the price of silver, more advantageous for traders of other countries to purchase produce in India, and will become less advantageous for the Indian people to purchase the products of other countries. This can be readily proved by a simple example:— Suppose 6 lbs. of cotton can be purchased in India for a rupee. Before the fall in price of silver, it may be considered that a sovereign was worth ten rupees, consequently 60 lbs. of cotton could be purchased for a sovereign. Now if silver falls to 48*d.* an ounce, a sovereign will exchange for about 12 rupees; and, consequently, on

the supposition that there has been no change of prices in India, a sovereign will purchase 72 lbs. instead of 60 lbs. of cotton. It would, therefore, become much more profitable for English traders to purchase Indian cotton, and consequently more would be purchased. In a similar way it can be shown that there will be less inducement for the Indian people to purchase commodities from other countries. Thus, suppose that a bale of Manchester goods was worth £5, and that there is no change in general prices in England. Before the fall in the price of silver 50 rupees would be required to purchase this bale of goods, but now not 50 but 60 rupees are equivalent in value to £5, and consequently India will have to pay foreign countries 60 rupees for that which she was able formerly to obtain for 50 rupees. This must evidently cause her imports to decline, and as it has been shown that her exports will increase, there will be a greater balance due to her, which will have to be liquidated by the transmission of an increased amount of specie. If, therefore, the fall in the price of silver continues, a portion of the additional quantity of silver which is annually produced will inevitably find its way to India; and if this import of silver into India continues, prices there will advance until it ceases to be exceptionally profitable to purchase goods from India, and exceptionally unprofitable for India to purchase goods from foreign countries. In this way an influence will be brought into operation which will ultimately cause the decline in the price of silver, or the fall in its value compared with gold, to be accompanied by a corresponding depreciation in its purchasing power, or, in other words, by a corresponding rise in prices in India, and in other countries which still retain silver as a standard of value. It is obvious that as long as prices in England and India are such as to make it exceptionally profitable to purchase goods in India, and exceptionally unprofitable for the people of India to purchase goods in other countries, an influence is brought into operation to stimulate the export of silver to India. This increased demand for silver will of course tend to check the fall in its price. There has not yet been sufficient time to estimate to what extent or with what rapidity this circumstance will exercise an influence on the price of silver. After reaching 48d. an

*There cannot be a permanent difference in the purchasing power of silver in India and in the countries with which she trades.*

*By producing an increased demand for silver in India the fall in the value of silver*

BOOK III.  
CH. XVI.

*will probably be checked.*

ounce, there has been a slight recovery in the price of silver to 50*d.* an ounce; and it is not improbable that this rise is due to the circumstance to which we have just referred.

It is impossible to say how long a period will elapse before the process of readjustment is completed; a considerable interval will undoubtedly occur; and as it seems that the adjustment has scarcely yet commenced, it becomes important to inquire in the first place: What is the present effect on India of the fall in the price of silver? And, secondly: What will be the effect on India when this fall has produced a corresponding rise in prices in India?

*A consideration of the immediate result in India of the fall in the value of silver.*

*The effect of the Permanent Settlement in limiting the Land Revenue of India.*

The financial relations between India and England are so exceptional, that it appears certain that for some time to come the fall in the price of silver is likely to produce the maximum amount of mischief and inconvenience to India. By far the most important source of revenue in India is that which is derived from the land; the Government may be regarded as the general landowner, the cultivator paying rent in the form of land-tax. Throughout a considerable portion of the most fertile part of India, what is known as the Permanent Settlement prevails; and where this is the case the Government has agreed to let the land for ever at a fixed annual charge estimated in silver. The amount of land revenue yielded by the districts thus permanently settled is about 5,000,000*l.* a year, and consequently as this amount is paid in silver, its value becomes depreciated in exact proportion to the depreciation in the value of silver. Even in those districts which are not permanently settled, the land is in many instances settled for thirty years, or, in other words, it has been leased for this period at a fixed pecuniary amount to be paid in silver: consequently until the term of settlement expires the revenue derived from the land is depreciated in exact proportion to the depreciation in the value of silver. If the revenue of India was spent in India, this depreciation in the value of silver when compared with gold would be of little consequence to India, so long as the general purchasing power of silver in India remained unaltered; but, as previously remarked, India is in the unfortunate position, that an increasing



portion of her revenue, now amounting to one-third, is spent in England. What India has to expend in England is chiefly paid in gold. Thus the interest on her debt, which amounts to nearly 6,000,000*l.* annually, is a fixed charge payable in gold: consequently as silver becomes depreciated when compared with gold, India will require an increasing amount of silver to obtain this gold: she therefore is at the present moment in this position, that so far as a large portion of her revenue is concerned, she obtains a fixed quantity of silver; this silver has to discharge certain payments which have to be made in gold; consequently as silver becomes depreciated in value when compared with gold, more and more silver is needed to make these payments. Therefore so far as payments to England are concerned, the revenue of India is constantly declining and her expenditure constantly increasing. The fall in the price of silver is thus likely to cause the most serious inconvenience and embarrassment to the government of India. It will also inflict a very real loss upon many private individuals; every one in India who is in receipt of a fixed income of so many rupees, finds that all that portion of his income which he spends in England is depreciated in exact proportion to the fall in the price of silver. Suppose, for example, that a Civil Servant is in receipt of a salary of 50,000 rupees per annum, that he has been in the habit of spending 20,000 rupees in India, and transmitting to England 30,000 rupees for the education of his children, for the support of his wife and family, and for investment. These 30,000 rupees when silver was at 60*d.* an ounce were worth 3000*l.*; when silver fell to 48*d.* an ounce they were worth no more than 2400*l.*, and thus he had to bear just as great a loss as if an income-tax of 20 per cent., or 4*s.* in the pound, were imposed upon all that portion of his income which is transmitted to England. It therefore appears that the depreciation in silver is not only severely felt by the Government, but also inflicts great loss upon many private individuals.

It now remains to consider what is likely to be the effect on India of a depreciation in the value of silver when that depreciation has produced a general rise of prices in India. There is too much reason to fear that, as the depreciation in the value of silver gradually brings

BOOK III.  
CH. XVI.

*The sums which India owes to England are for the most part paid in gold; whereas the Indian revenue is paid in silver, a large part of which cannot be increased in amount.*

*The effect on the possessors of fixed incomes in India.*

*The effect of a rise in general prices in India.*

about a rise of prices in India, the disadvantage and inconvenience which is now being caused to the Government will rather increase than lessen. A considerable part of the most important source of revenue in India is, as previously stated, fixed in pecuniary amount, either permanently or for a considerable period of years. As therefore a large part of the land revenue virtually represents a fixed quantity of silver, this revenue will become less valuable and less capable of performing the general purposes of the Government in exact proportion as the general purchasing power of silver declines. If, for instance, there is a depreciation in the value of silver in India, or a rise in general prices, of 20 per cent., the pay of the army, the salaries of civil servants, and of all persons employed by the Government, must be increased 20 per cent., and consequently almost every item of expenditure will be increased, whilst a considerable part of the most productive source of revenue will remain stationary.

*The various remedies that have been suggested.*

*A gold standard and a gold currency.*

The strain which will in this way be put upon the finances of India is so great, that since the present depreciation in the value of silver took place various remedial measures have from time to time been suggested. Thus it has been proposed to introduce a gold currency into India, and to make gold the standard of value instead of silver. It appears however that the adoption of such a proposal would bring no relief to India, but would, on the contrary, aggravate the difficulties of her present position. A gold currency is entirely unsuited to such a country as India, where the great mass of the people are so poor and their purchases are of such small amount, that they are carried on almost entirely by means of *pice* and *annas*, the small copper coins of the country. The controller of the finances stated, in his evidence before the select committee on Indian Finance, that great numbers of the poor people in Bengal never had so much as a small silver coin in their possession. But even if a gold currency were not so entirely unsuited to India as it is, the difficulties of changing a currency in such a country would be most formidable. The people themselves, who dislike innovations upon their habits and traditions with an intensity which Europeans can scarcely understand, would strongly

*The conservative habits of the people*

resent such a change, and however well intentioned it might be, they would be sure to conclude that the Government was prompted by some sinister motive to introduce it. Nothing would be more calculated to spread a feeling of insecurity and discontent throughout the country. But even if there were not these obstacles in the way, it is more than doubtful whether the adoption of a gold currency would avert the inconvenience and loss produced by a fall in the price of silver. It has been already stated that the German Government have purchased 70,000,000*l.* of gold in order to effect the change in their currency, but if it has been necessary for Germany to purchase this large quantity of gold, a far greater amount would have to be purchased by India if silver were demonetised in that country. The purchase of a great amount of gold and the sale of the large quantity of silver which would be displaced by this gold, would exercise a more powerful influence than is probably exerted by any circumstance now in operation, to depreciate the value of silver compared with gold. A change in the currency of a great and populous country such as India could not be suddenly carried out: many years would be required for its completion, and during the whole of this time, as silver was gradually withdrawn from circulation, India would find herself in this unfortunate position, that the silver which she had to sell was constantly falling in price, and that she had consequently to give more and more silver for the gold she required.

It has however been suggested that with a view of obviating the difficulties here referred to, gold might be adopted as a standard of value in that country without introducing a gold currency. The advocates of this scheme apparently propose some such plan as the following:—At a certain period it should be declared that a given number of rupees, say ten, were equivalent in value to one pound sterling, and that all payments which before had to be made in rupees should in future be reckoned in pounds. If such an arrangement were adopted, a person who had engaged to pay a fixed annual sum, say a land rent of 50 rupees a year, would find that his rent was increased; because the rent having been converted into a payment of 5*l.* which was at the time equivalent to 50 rupees, is now,

BOOK III.  
CH. XVI.

*would render such a change almost impossible.*

*Its utility is also most questionable.*

*A gold standard and a silver currency.*

BOOK III.  
CH. XVI.

that the value of silver has become depreciated, equivalent to 60 rupees. If the Government resorted to such an expedient in order to escape the loss consequent on the depreciation of silver, they would obviously lay themselves open to the charge of arbitrary confiscation; and it would be far simpler, and certainly not more unjust, to declare that those who had to make fixed payments in silver should have these payments increased in exact proportion to the depreciation of silver. If however this were done, it would not unreasonably be regarded as a breach of faith, and it would be fairly objected, that when silver increased in value as it has sometimes done, the Government and others who had fixed money payments to receive did not reduce the amount of these payments.

*A double standard.*

It has been also suggested that it would be advisable to introduce a double standard into India. It can be readily shown that a double standard would entirely fail to meet the difficulties of the situation. If persons were allowed to make payments either in gold or in silver, they would inevitably make them in that metal the relative value of which had fallen; consequently those who had a fixed amount of money to receive would always be liable to have it paid in the money which was at the time of the least value. Consequently silver would at the present time be used in India, and if at any future time, gold should fall in value compared with silver, the Government and others who had fixed pecuniary amounts to receive would be paid in gold, and they consequently would lose the advantage they might otherwise obtain from a recovery in the value of silver. Another of the suggested schemes is to make gold the standard of value in India, retaining silver as the currency, and to maintain the value of silver by limiting the quantity of silver coined. It is imagined by the advocates of this proposal that if the amount of silver coinage were thus limited, silver could be maintained in India at its old value of 10 rupees to the pound sterling, however great may be the fall in its value in other countries. Such an attempt to give an artificial and fictitious value to silver in coin, would be frustrated because it would offer a large pecuniary inducement to the illicit manufacture of full-weight

*Limitation of the amount of silver coined.*

silver coins. Thus assuming the fall in the price of silver to be no greater than it is at the present time, the silver that could be purchased in any other country for 100% could be manufactured into rupees which would be worth 120% in India; there would be therefore a great profit in making such coins, and the profit would increase, and consequently the inducement to make such coinage would be strengthened, with each fall in the price of silver. It is certain that there would be a great and rapid fall in silver if a proposal were adopted artificially to restrict the amount of coinage in India, because it would be felt that the chief source for the absorption of silver had been to a great extent closed.

We have thought it desirable to explain how inexpedient or impracticable many of the schemes are, which have been from time to time proposed for averting the inconvenience and loss caused by the fall in the value of silver. The fluctuations which have taken place in the value of silver, and the change which, as we have shown in the last chapter, may possibly occur in the value of gold, should serve as a warning that neither gold nor silver can be regarded as a fixed standard of value. Any arrangement, therefore, based on the payment of a definite sum of money always has this element of uncertainty associated with it; that the fixed sum of money may become much less valuable, or may represent less purchasing power at one period than at another. The discovery of extremely rich deposits within the last 30 years both of gold and silver, in localities where these metals were previously not known to exist, shows that great caution should be exercised both by individuals and by Governments in entering into transactions which involve fixed pecuniary payments lasting over a long period of time. The 5,000,000% which the Government of India now receives as Land Revenue, from the permanently settled districts of Bengal, is probably not equivalent to one-fourth of the sum it would be receiving if the revenue had not been thus commuted for a fixed annual payment. The cultivators do not gain what the Government loses, for they simply pay to zemindars, who may be regarded as private landlords, a full rack-rent, which, if received by the Government, might be employed to

*All these schemes are inconvenient or impracticable,*

BOOK III.  
CH. XVI.

*In all future land settlements the rent paid to the Government should be made capable of readjustment from time to time.*

*The great loss from which India is suffering must be met by increased thrift and economy.*

reduce the taxation which presses upon the general body of the people, including these cultivators themselves. The unfortunate error which was committed when the Permanent Settlement was sanctioned cannot now be repaired. But in future land settlements in India it ought to be borne in mind that the value of silver may fluctuate, and precautions should consequently be taken to guard against these fluctuations. Thus if the land revenue could be made to vary with the price of agricultural produce, as the tithe does in England with the price of corn, it is manifest that the amount of the land revenue would increase directly general prices advanced in consequence of a depreciation in silver. As no such precaution as this has hitherto been taken, it is impossible to avert the loss which is caused to India by the present fall in silver. A severe strain must, at any rate for a time, be borne by the Indian Government, and it consequently becomes of the first importance to meet the crisis by increased thrift and care in the financial administration of the country.

**BOOK IV.**  
**TAXATION.**





## CHAPTER I.

### ON THE GENERAL PRINCIPLES OF TAXATION.

**I**T is customary for writers on political economy to discuss taxation as a part of the separate division of the science which has been termed by the late Mr Mill, 'the influence of government.' It is no doubt true, that almost every law which is enacted exerts, either directly or indirectly, some influence on the economy and wealth of the nation. It might therefore appear that every Act of Parliament might be appropriately discussed in a treatise on political economy. But if such a course were adopted, the range of this science would be practically unlimited. It is therefore necessary that some restriction should be placed upon the scope of this part of our inquiry; a convenient boundary line will be drawn, if our investigations are confined to measures, the specific object of which is to obtain money, which the Government either spends itself, or directs to be expended by others. It is manifest that such measures are included in the term *taxation*, meaning by the word *local* as well as *general taxation*; for *taxation* has no other object in view except to obtain money. The *taxes*, when collected, may be devoted to any purposes which the Government may direct; but a person is never made to pay a tax, in order that some subsidiary end may be attained.

As an example it may be mentioned, that a tax on spirits raises their price; the consumption of an intoxicating beverage is thus discouraged, and the tax may be therefore said to promote temperance. But anxious as the Government may be to prevent drunkenness, the tax on spirits is imposed for the sole purpose of obtaining revenue. It is,

BOOK IV.  
CH. I.

*Taxation is generally discussed under the head of 'the Influence of the Government.' Reasons for restricting this branch of the inquiry.*

*Taxes may produce various effects, of which we only consider those which in-*

BOOK IV.  
CH. I.

*fluence the  
production, dis-  
tribution,  
and ex-  
change of  
wealth.*

*Govern-  
ments are  
compelled  
to raise  
taxes.*

*Are there  
any princi-  
ples which  
will enable  
us to decide  
on their  
justice?  
Adam  
Smith's*

of course, fortunate if the tax effects another subsidiary object, and improves the morality of the people. But if the revenue which is raised by the spirit-duties should not be wanted, no one but a fanatic would think of retaining these duties merely for the purpose of discouraging drunkenness. Even if such a proposition were seriously entertained, it would involve considerations which would not belong to political economy, but to the general science of ethics. Political economy has simply to explain what will be the influence of any particular measure upon the production, the distribution, and the exchange of wealth; this science is trespassing upon the domains of other sciences, if it attempts to decide whether a particular measure be right or wrong. We therefore think it advisable to avoid discussing, in a treatise on political economy, those acts of a government which are intended to effect some object which is not directly concerned, either with the production, the distribution, or the exchange of wealth, but which may, nevertheless, at the same time exert some indirect influence upon the general economy of the nation. Several advantages are obtained by adopting this course.

It is evident that a government cannot possibly exist, unless it possesses a revenue; its laws, for instance, become a dead letter, unless the penalties which the law sanctions are enforced on those who disobey. The people who enforce these penalties are servants of the State, and they therefore require some remuneration for the duties which they perform. Hence the State must possess a revenue, in order to pay its various agents and servants. This revenue may be obtained by rapine and pillage; but if such means are resorted to, the revenue is not raised by taxation; for taxation implies, that the right to levy a tax is given by law, and that the law not only enacts by what classes of the community the tax should be paid, but also specially states the penalty which any one incurs, if he refuses to pay the tax. The question, therefore, is at once suggested, Are there any principles which will enable us to decide whether any particular tax is just or unjust, defensible or indefensible? Adam Smith considered, that all the principles of taxation might be deduced from the four following rules, or precepts. These four rules, which

have been termed canons of taxation, shall be described in Adam Smith's own words.

'1st. The subjects of every State ought to contribute to the support of the Government, as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State. In the observation or neglect of this maxim consists, what is called the equality, or inequality of taxation.'

'2nd. The tax which each individual is bound to pay, ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. Where it is otherwise, every person subject to the tax is put, more or less, in the power of the tax-gatherer, who can either aggravate the tax upon any obnoxious contributor, or extort, by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages the insolence, and favours the corruption of an order of men who are naturally unpopular, even when they are neither insolent nor corrupt. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance, that a very considerable degree of inequality, as appears I believe from the experience of all nations, is not near so great an evil, as a very small degree of uncertainty.'

'3rd. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land, or of houses, payable at the same time at which such rents are usually paid, is levied at a time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury, are all finally paid by the consumer, and generally in a manner that is very convenient to him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty too, either to buy or not to buy as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.'

'4th. Every tax ought to be so contributed as both to take out and keep out of the pockets of the people as little

BOOK IV.  
CH. I.

*Canons of Taxation. Taxes should be in proportion to the means of the taxed.*

*They should be certain.*

*They should be levied at the time most convenient to the taxed.*

*They should take as little as*

BOOK IV.  
CH. I.

*possible be-  
yond the  
amount  
which  
comes into  
the trea-  
sury.*

as possible over and above what it brings into the public treasury of the State. A tax may either take, or keep out of the pockets of the people, a great deal more than it brings into the public treasury, in the four following ways: 1st. The levying of it may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. 2nd. It may divert a portion of the labour and capital of the community from a more to a less productive employment. 3rd. By the forfeitures and other penalties which those unfortunate individuals incur, who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have derived from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. 4th. By subjecting the people to the frequent visits, and the odious examination of the tax-gatherers, it may expose them to much unnecessary trouble, vexation, and oppression.

*Summary  
of these  
four rules.*

In order to assist the reader's recollection, these four rules or principles of taxation may be briefly described as follows:—

1st. Taxation should possess equality.

2nd. There should be no uncertainty with regard to the amount to be levied.

3rd. The tax should be levied at the most convenient time, and in the most convenient manner.

4th. The State ought to obtain as much as possible of the whole amount which is really levied from the tax-payer.

*The truth  
of the last  
three is  
indisput-  
able.*

The importance of the last three of these four rules, after the remarks which have been made upon them by Adam Smith, will be so generally admitted, that it is unnecessary farther to dwell upon them; they will receive additional illustration when various special taxes are discussed. It is, however, necessary that the first of these four principles should be clearly stated; we will therefore endeavour to explain what is really meant by equality of taxation, and we will also inquire as to the best mode of securing such equality.

*Equality  
of taxa-*

Equality of taxation is one of those expressions which, although in constant popular use, cannot, without difficulty,

be accurately defined. Some people seem to think it sufficient to state, that equality of taxation is secured when every person in a community is taxed according to his means; but to tax a person according to his means, is an expression which does not convey a clearer conception than equality of taxation. At any rate, the precept that people should be taxed according to their means, would give the statesman as little assistance in framing a just system of taxation as if he were told to obey the maxim, that equality of taxation must be secured. Insurmountable difficulties at once suggest themselves, if any attempt is made to decide whether one person's means are, or are not, equal to another's. A and B, we will suppose, are two landowners; each of them possessing a freehold estate worth 1000*l.* a year. A is a bachelor, and never intends to marry; B has ten children, besides a great number of other relations depending upon him. Unless the signification of words be severely strained, it could not be maintained that B's means were equal to those of A; and yet no system of taxation which has ever been proposed, would exempt B from a tax which A was bound to pay, simply on the ground that B had a large family, and A had no children. In fact, under every system of taxation which prevails in any country at the present time, B would pay a greater instead of a smaller amount in taxes than A; for B, having a larger establishment than A, would purchase a greater amount of the commodities which are taxed. If, for example, these two individuals lived in our own country, B, on account of his large family, would be sure to purchase more tea than A, and probably also more beer, wine, and spirits; B would also require a larger house than A, and a greater amount of local taxation would consequently be levied upon him. It therefore appears, with regard to those taxes which are levied upon commodities, that no attempt can be made so to adjust them that each individual shall be taxed in proportion to his means. Consequently, if taxing an individual in proportion to his means is to be the test of equality of taxation, inequality seems to be inseparably associated with the great majority of taxes that are imposed.

But it may, perhaps, be said, that if taxes on commodities exert upon different individuals such an unequal

BOOK IV.  
CH. I.

*tion is a  
term in-  
capable of  
definition.*

*Difficulty  
of inter-  
preting it  
when ap-  
plied to  
married  
men and  
bachelors.*

BOOK IV.  
CH. I.

*The unequal pressure of taxes on commodities cannot be redressed by an income-tax.*

*Unsatisfactory nature of the theory that taxation should be proportionate to the amount of protection derived from the State.*

*Adam Smith's expressions are indistinct, for they imply that taxation ought to be pro-*

amount of pressure as that which has been described, it then becomes all the more important, that equality of taxation should be restored by a proper adjustment of an income-tax. The income-tax will be subsequently considered; it is here only necessary to state, that no plan of levying the income-tax which has ever been proposed would have the slightest effect in causing the two individuals, A and B, above described, to be taxed according to their means. Although many have advocated the policy of levying a different rate of income-tax on various kinds of income, yet no one has ever even suggested that two incomes in every respect of the same kind should be differently taxed, because the one income belonged to a bachelor, and the other to a man with a large family. It must, therefore, be evident that equality of taxation cannot mean the taxing of people according to their means, because this is an end which it is useless even to attempt to attain.

There is another test of equality of taxation, which has been regarded by numerous writers as perfectly satisfactory. These writers affirm that the revenue of a government is employed in protecting the lives and property of its subjects; consequently the amount which each individual contributes to the revenue ought to be proportioned to the benefit which he derives from the protection of the State. But if equality of taxation is to be secured in this manner, it would not only be necessary to tax the property which is protected, but it would also be necessary to impose a poll-tax upon every member of the community. The life of every individual is of some value to himself; therefore, in protecting his person, a government confers the same benefit upon each member of the community. It would, however, be a manifest absurdity to propose such a poll-tax, and therefore this scheme for securing equality of taxation, though it has an air of plausibility about it, is scarcely worthy of serious consideration.

It does not appear at all certain that Adam Smith distinctly conceived a plan for deciding whether, in any particular case, equality of taxation is, or is not, secured. His language, when apparently clear, sometimes fails to convey a definite meaning. His words are these: 'The subjects of every State ought to contribute to the support of the Government as nearly as possible in proportion to

their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.' Upon this fundamental principle it is repeatedly said that every system of taxation ought to be based. Notwithstanding the deference due to such a high authority, we believe it will be found that, if the language employed by Adam Smith is closely analysed, his first principle of taxation is not only expressed in words which are obscure, but that it is almost useless for any purposes of practical application. It will be observed that Adam Smith, in the first place, affirms that the subjects of a State ought to contribute to the support of the Government in proportion to their respective abilities; then he professes to make this statement of his principle more clear by enunciating it in different terms; for he explains that 'contributing to a Government in proportion to a person's abilities,' is the same thing as 'contributing in proportion to the revenue which he enjoys under the protection of the State.' These two statements of the principle, if they have any precise signification, do not mean the same, but entirely different things.

Adam Smith apparently intends, by the first statement of his principle, to give an implied assent to the opinion, that equality of taxation cannot be secured, if simply the income, or property of each individual is considered, without taking any notice of various other circumstances which may cause any particular tax to be really much more burdensome to one individual than to another, although they may possess equal incomes. Hence this question is at once suggested, What does Adam Smith wish to signify by the expression 'ability to pay'? Should 'ability to pay' be estimated by the amount of wealth which a man may possess? If so, a man whose income is only 50*l.* a year ought to pay just half as much in taxation as a man whose income is 100*l.* a year. Without expressing an opinion as to the justice of such an arrangement, it is necessary to point out that different significations are sometimes attached to the expression 'ability to pay'; and Adam Smith does not definitely tell us which signification ought to be accepted. Some people have urged that, if an income of 50*l.* a year is only just sufficient to provide the possessor of it with the bare necessities of life, then he who has such

BOOK IV.  
CH. I.

*portioned  
to revenue  
and also to  
ability to  
pay,*

*which are  
different  
and incon-  
sistent  
tests.*

*Ability to  
pay should  
not be con-  
sidered as  
propor-  
tionate to  
income,*

BOOK IV.  
CH. I.

*and provides no test of equality.*

*Taxation on commodities renders it impossible to tax according to ability to pay.*

*Hence Adam Smith's first rule is of no practical use as*

an income cannot be said to have any 'ability to pay' a portion of it in taxation. Adam Smith probably did not make any allowance for such considerations as these; it may therefore be assumed that, in his opinion, a system of taxation would be perfectly equitable, if it could be so arranged that an individual whose income was 100*l.* a year, should contribute just twice as much to the revenue of the State as an individual whose income was only 50*l.* a year. This in all probability was his opinion, because he endeavours more fully to elucidate his principle by affirming that each individual ought to contribute in proportion to the amount of revenue which the State protects for him. But even admitting that this is the meaning of Adam Smith's principle, it may be asked, Does it provide any measure or standard of equality of taxation by means of which the justice of any particular tax might be ascertained? Let us test the practical utility of this principle, by applying it to our own fiscal system.

It has been previously affirmed that equality of taxation passes out of the legislator's control, if it is necessary to raise a revenue by taxing commodities. The amount which each individual contributes to a tax on commodities must be entirely regulated by the consumption of this commodity, and can, in no way, be apportioned to the ability of each individual to pay the tax. The inequality which, according to Adam Smith's definition, is thus introduced, cannot be remedied by an adjustment of that portion of the revenue which is raised by direct taxation. It may be a debateable question, whether an income derived from some temporary source, such as a profession, should be taxed at the same rate as an income which is derived from freehold land; but no one has ever thought of proposing, that two incomes of the same kind and the same amount should be differently rated, because other taxes may levy from the possessors of these two incomes amounts which are not proportioned to their respective abilities to contribute to the revenue of the State.

These remarks have been made with the view of showing that Adam Smith's first rule is of no practical use, if it is applied to test the justice or injustice of any one particular tax; in fact, it is very important to establish this point, because many errors with regard to



taxation have been based upon this first rule of Adam Smith. Examples of such errors are frequently met with in the various proposals which are made for the adjustment of the income-tax. Thus it is often affirmed that an income which is derived from a temporary source, ought not to be taxed at the same rate as an income arising from a permanent source. It is argued that the owner of a temporary income has not the same ability to pay the tax as the possessor of a permanent income, since the former has to set aside a larger portion of his income to provide against future contingencies than the latter. Such an argument involves a fallacy; it would no doubt be perfectly fair to apply Adam Smith's first rule to one particular tax, such as the income-tax, if it could also be applied to every other tax which is imposed. It has, however, been shown that such a general application of this rule is impossible; it does not therefore follow that the inequality which is necessarily associated with some taxes, would be in any way diminished by attempting so to arrange one particular tax, that each individual should contribute to it in proportion to his ability to pay it.

In order to illustrate this remark, let it be assumed that the whole revenue of the State is obtained by a 20 per cent. income-tax, and by a high duty on some article of general consumption, such as tea. Let it also be further assumed, that there are two individuals, A and B, whose incomes are respectively 500*l.* and 1000*l.* a year. If A and B have the same number of children, they will probably purchase nearly the same quantity of tea, and therefore they will contribute, as far as the tea-duty is concerned, nearly the same amount to the revenue, although the ability of one to pay the duty is twice as great as that of the other. This inequality of taxation would manifestly remain untouched, if the income-tax were levied in strict accordance with Adam Smith's first rule, and if each of these two individuals were consequently made to contribute to the income-tax in proportion to his ability to pay. In order to remove the inequality which is connected with the tea-duty, it would be necessary to make some kind of compensation to the possessor of the smaller income, and therefore a smaller rate of income-

BOOK IV.  
CH. I.

*a test of  
the justice  
of a tax.*

*Exemplifi-  
cation of  
the useless-  
ness of the  
rule as ap-  
plied to a  
system of  
taxation.*

BOOK IV.  
CH. I.

*True statement of the principle.*

*Equality of taxation may be approximately obtained.*

tax ought to be levied from the possessor of the income of 500*l.* a year, because he contributes a larger proportion of his income to the tea-duty, than is contributed by the owner of the income of 1000*l.* We readily admit that such an attempt to adjust the burden of taxation could never produce perfect equality; but it is only by adopting such a course, that even an approximation towards equality of taxation can be attained. It therefore appears that, although Adam Smith's first rule of taxation ought not, under any existing revenue system, to be applied to any special tax, yet the principle is no doubt true, when expressed in the following manner:—The aggregate amount which each individual pays in taxes, ought to be in proportion to his ability to contribute to the revenue of the State.

In the remarks which we shall now proceed to make upon various special taxes, it will be shown that the equality of taxation which this principle is intended to define, can never be perfectly secured. It may, however, be approximately obtained by giving to one class, with regard to some taxes, certain advantages which will, in a rough way, provide a compensation for disadvantages which the same class may suffer from inequalities of taxation, perhaps inseparably associated with other portions of the national revenue.

## CHAPTER II.

### ON THE INCOME-TAX.

IT is advisable to devote a separate chapter to the consideration of the income-tax. There still exists much difference of opinion amongst political economists with regard to various questions connected with the levying and incidence of this tax. One of the chief points of dispute is this: Ought incomes arising from a temporary source to be taxed at the same rate as incomes which may be regarded as permanent? There is no doubt that the greater number of people who have written on this subject express a very decided opinion, that the barrister who is deriving 1000*l.* a year from his profession, ought not to pay so high a rate of income-tax as the landowner who receives 1000*l.* a year from freehold land. The arguments which are urged in support of this opinion may be divided into two classes; the first of these classes is based upon arithmetical reasons, whereas the other class appeals to the general principles of taxation. Let us, therefore, first consider the arguments which are supposed to be supplied from arithmetical considerations.

It is urged that the income of a professional man ought to be regarded as an annuity for a certain term of years. It is therefore maintained that a man who derives 1000*l.* a year from some permanent source of income ought to pay a higher rate of income-tax than a man who only enjoys an annuity of 1000*l.* for a certain number of years, which, for purposes of illustration, we will suppose to be twenty. It will be expedient in the first place to discuss this question as one of pure arithmetic, and then consider the plea that is urged in favour of an annuitant, on the ground that he is not so well able to pay the income-tax

BOOK IV.  
CH. II.

*Ought temporary incomes to be taxed as highly as permanent incomes?*

*Statement of the case.*

BOOK IV.  
CH. II.Arithmeti-  
cal argu-  
ment.

*If the in-  
come-tax  
were per-  
manent, no  
injury  
would be  
inflicted  
by taxing  
temporary  
and per-  
manent  
incomes at  
the same  
rate.*

which is now levied upon him as the possessor of a permanent income.

The arithmetical argument will be most clearly elucidated by an example. Let it be assumed that the current rate of interest is three per cent., and that two brothers, A and B, each inherit from their father 20,000*l.* A invests his money in the funds, and the rate of interest is three per cent.; he will, therefore, obtain a permanent income of 600*l.* a year. B invests his 20,000*l.* in purchasing an annuity of 1200*l.*, continued during his lifetime. Let it be further assumed that the income-tax is a shilling in the pound. According to the present mode of levying the tax, A would pay 30*l.* a year and B would pay 60*l.* a year; and the question arises, Is this equitable, considering that A and B both possess the same amount of property? In order to answer this question, let it be in the first instance supposed that the income-tax is a uniform permanent charge, and that the Government is willing to redeem the tax. It is upon the hypothesis quite evident, that an annuity of 1200*l.* a year for B's lifetime, is exactly equal in value to an annuity of 600*l.* a year continued for ever, supposing the rate of interest to be three per cent.; for either of these annuities can be obtained by the investment of 20,000*l.* But if the income-tax were permanently fixed at the uniform rate of five per cent., A's 20,000*l.* would have to pay an income-tax of 30*l.* a year for ever, because he is supposed to invest it in the form of a permanent annuity. B's 20,000*l.*, however, would only have to pay 60*l.* a year during his lifetime, because his annuity of 1200*l.* a year will cease at his death. If A and B wished to redeem the income-tax on the 20,000*l.* which they respectively possess, they would each have to pay exactly the same sum to the Government; for the present value of an annuity of 60*l.* a year to be continued during B's lifetime must be equivalent in value to a permanent annuity of 30*l.* a year, because it has been assumed that the present value of these annuities is equal. If, therefore, the income-tax were permanent and uniform, it appears on mere arithmetical grounds that a temporary income such as an annuity for a limited term of years ought to be taxed at the same rate as a permanent income. If it is supposed in the above example, that permanent incomes are taxed

at the same rate as temporary incomes, then A and B would have to pay the same amount to redeem the income-tax upon the 20,000*l.* which they inherited from their father. Such an arrangement would be just and equitable, since there can be no valid reason why B, because he decides on investing the money in a temporary annuity, should pay a less amount to redeem the tax than A, who invests the money in a permanent income. But an undoubted injustice would be inflicted on A if temporary incomes were taxed at a lower rate than permanent incomes.

Let it, for instance, be assumed that a permanent income pays a tax of five per cent., whereas a life-annuity annually pays two-and-a-half per cent. According to this assumption, B would only have to pay half as much as A in order to redeem the income-tax on 20,000*l.* Why, again, it may be asked, should not the amounts which A and B have both to pay be the same, when it is remembered that A and B both originally possessed 20,000*l.* and at their own free will chose different kinds of investment? We therefore think the above example, simple as it may appear, affords a conclusive arithmetical argument that, if the income-tax were permanent and uniform, temporary incomes ought to be taxed at the same rate as permanent incomes. The conclusion, however, which has just been established is based upon a particular hypothesis; and it remains to be inquired whether the same conclusion holds true, when an income-tax is neither permanent nor uniform.

The income-tax has again and again been described by statesmen in this country as only a temporary expedient. In order to give a technical form to these assertions concerning the temporary character of the income-tax, the continuance of this tax from year to year is based upon a special Act of Parliament. The people are, moreover, repeatedly assured by successive Chancellors of the Exchequer, that the income-tax shall be reduced immediately the finances of the country will permit such a reduction. It is therefore evident that the income-tax is neither permanent nor uniform; for no other tax in our whole fiscal system is so temporary in its character, or so varying in its rate. When this is borne in mind, it may seem that the views above expressed cannot be maintained, and that

*A difference in the rate would be unjust to the possessor of a permanent income.*

*The income-tax is, however, neither permanent nor uniform.*

BOOK IV.  
CH. II.

*If the income-tax is only for a fixed period the temporary income should be taxed at a lower rate.*

*But the period is never really fixed.*

*Results which would follow from different rates in our own country.*

temporary and permanent incomes ought no longer to be taxed at the same rate.

In order to settle this point, let us revert to our previous example, and suppose that an income-tax of five per cent. is imposed for five years, and that A and B are two individuals who inherit 20,000*l.* each from their father. Let it also be further assumed that A invests his money in the funds and obtains an income of 600*l.* a year, and that B purchases with his 20,000*l.* a life-annuity of 1200*l.* If, therefore, permanent and temporary incomes are taxed at the same rate, A will pay five times 30*l.* or 150*l.* during the five years that the income-tax is supposed to be continued, whereas B will pay 300*l.* in income-tax. Now it may be urged that this cannot be just; for why should B pay twice as much in income-tax as A, since they both originally have the same amount of property which they chose to invest in a different manner? Hence it appears to us quite indisputable, that temporary incomes ought to be taxed at a lower rate than permanent incomes, if the income-tax can be really considered to be imposed for only a limited period, which we have here assumed to be five years. Experience, however, incontestably proves that the time during which the income-tax will be continued can never be predicted even with approximate accuracy. This uncertainty, consequently, renders it impossible to frame any equitable method of adjustment based upon the hypothesis that the tax will not be continued for a longer period than that which is originally proposed. For let us see what would have been the result if such a method of adjustment had been adopted in our own country.

In the year 1854 the Chancellor of the Exchequer confidently affirmed, that the income-tax would be gradually reduced, and would be entirely abolished in the year 1860. Here, then, a case is presented, exactly similar to that just described; for, reverting to our original example, it may be assumed that the two brothers A and B come into possession of 20,000*l.* each in the year 1854. A invests his 20,000*l.* in the funds, and obtains a permanent income of 600*l.* a year, whereas B purchases with his 20,000*l.* a life annuity of 1200*l.* It is therefore manifest that, if temporary incomes are taxed at the same rate as permanent incomes, B will each year contribute twice as much to the

income-tax as A. Now if the income-tax is only a temporary impost which is certain to be repealed in the course of six years, B might very fairly urge that, since his income is derived from the same amount of property as his brother's, they ought to contribute the same amount to the income-tax. B might also further urge that, if he and his brother both wished to redeem the income-tax upon their 20,000*l.*, they ought to pay the same amount for this redemption; B would however be compelled to pay twice as much as A, in order to redeem the tax, if temporary incomes were taxed at the same rate as permanent incomes.

Those who believed that the income-tax would inevitably expire in the year 1860, would have found it difficult to answer the argument just supposed to be advanced by B. But if such a claim in favour of temporary incomes had been admitted, what would have been the result? The year 1860 comes; the income-tax is neither repealed nor reduced, but is, on the contrary, greatly increased. We therefore maintain, that an equitable adjustment would not have been secured, but, on the contrary, a great injustice would have been done to the possessors of permanent incomes, if, in the year 1854, our statesmen, acting on the supposition that the income-tax would only be continued for six years, had capitalised all temporary incomes, and then so arranged the income-tax, that the same amount of property, though differently invested, should contribute the same amount to the income-tax. Another example may be adduced, in order more clearly to illustrate the injustice which such a method of adjustment would have entailed.

Let it be assumed that one of the brothers, B, invests his 20,000*l.* in the purchase of an annuity of 4000*l.*, to be continued for six years. The other brother A still invests his 20,000*l.* in the funds, and obtains a permanent income of 600*l.* a year. Let it also be assumed, that in 1854 the income-tax was five per cent., and that it was to remain at this amount until the tax was entirely repealed in 1860. If permanent incomes were taxed at the same rate as temporary incomes, then A during these six years would only contribute 180*l.* to the income-tax, whereas B, who has purchased an annuity of 4000*l.*, would contribute 1200*l.*

*The uncertain duration of the income-tax prevents an equitable adjustment between permanent and temporary incomes.*

*A further example of the injustice resulting from an attempted adjustment.*

BOOK IV.  
CH. II.

*The income-tax should be regarded as permanent.*

*An adjustment is further made impracticable by the complicated arrangements which it would necessitate.*

There can be no doubt that such a result would be extremely unfair, if the income-tax were certain to be repealed at the end of the period originally fixed. It has been before remarked, that A and B each inheriting 20,000*l.*, the tax ought not to take more from one than from the other; it would therefore seem, that B as well as A ought to contribute only 30*l.* a year, and consequently B's income would only be taxed at the rate of  $\frac{1}{3}$  per cent. The equity of such a method of adjustment entirely depends on the income-tax being repealed at a fixed definite period. Experience however proves, that the time for the repeal of this tax can never be anticipated with certainty; for, when the year 1860 arrived, the repeal of the income-tax seemed indefinitely remote; according therefore to the method of adjustment which has been just described, B's 20,000*l.* invested in an annuity would in the aggregate only contribute 180*l.* to the income-tax; whereas A has already contributed the same amount, and will still have to pay income-tax upon his 300*l.* a year, during the whole time that the tax may happen to be continued. We therefore think, that the most simple and the most just plan is to consider the income-tax, and every other tax, as permanent. The extreme uncertainty which exists with regard to the charges which may be made upon the revenue of a country, renders it impossible for any one to foresee when a particular impost may be reduced or repealed. But if the income-tax is regarded as a permanent charge, the whole weight of the arithmetical argument is opposed to the opinion, that there should be any difference in the rates imposed upon temporary and permanent incomes. Besides the arithmetical arguments which support such a conclusion, other subsidiary reasons may be advanced in favour of a uniform rating.

In the first place it may be remarked, that an uniform income-tax can be collected with great facility, and at comparatively little expense; there would, however, be endless complications and confusion, if a method of adjustment were attempted, based on the plan of capitalising temporary incomes. For instance, a different amount of income-tax would have to be levied each successive year from individuals who possessed annuities for a limited period, since the capitalised value of a temporary annuity diminishes



each successive year. Again, a great variety of complicated and uncertain rules must be laid down, for the purpose of estimating the capitalised value of incomes derived from speculative investments, such as mining. The difficulty of estimating the capitalised value of incomes arising from trades and professions would involve still more complicated calculations. Thus the barrister of forty, who has a professional income of 1000*l.* a year, ought to be taxed at a higher rate than the barrister of sixty, who has the same professional income. The income of the one is likely to continue very much longer than the income of the other, and therefore the capitalised value of the former income is very much greater than that of the latter. Numerous other difficulties may be readily suggested. The income of the barrister is wholly lost to his family at his death, but the income which a solicitor obtains from his business may be partly enjoyed by his family after his decease, since the good-will of his practice may be sold, or some person may be taken into the business as a partner, who will pay the family a certain annual sum. The capitalised value of a solicitor's professional income must be therefore greater than the capitalised value of a barrister's income of the same amount. Hence, it would appear that incomes derived from one branch of the law ought to be taxed at a higher rate than incomes derived from other branches of the profession. The settlement of such intricate questions as these would give to the income-tax some of the worst qualities that belong to a tax; for it would be uncertain in its amount, and it would be so difficult to adjust in the various special cases which may arise, that a whole army of income-tax collectors and commissioners would have to be employed; consequently the expense and inconvenience of collecting the tax would be enormous. These considerations strengthen our conviction, that the income-tax ought to be levied at a uniform rate, and we entertain this opinion with all the more confidence, because the arithmetical arguments that can be adduced certainly do not oppose, but rather favour, the present method of levying the tax.

The principle of an uniform income-tax is however opposed, for reasons which are quite independent of any arithmetical calculations. These reasons, which we now

*Example  
in the diffi-  
culty of  
comparing  
a barrister's  
with a solicitor's in-  
come.*

BOOK IV.  
CH. II.

*Arguments  
in favour  
of adjust-  
ment inde-  
pendent of  
the above  
arithmeti-  
cal consi-  
derations.*

proceed to consider, are, in fact, based upon the first maxim of Adam Smith, which is popularly thought to define equality of taxation. The persons who oppose an uniform income-tax maintain that, whether a temporary and uncertain income ought to be taxed at the same rate as a permanent and certain income, is a question which must be settled independently of arithmetical considerations. For instance, it is frequently affirmed, that an income derived from a trade or profession ought to be taxed at a much lower rate than an income obtained from some such permanent and certain source as the funds, or landed property. When it is asked why this distinction should be made, it is considered quite sufficient to reply, that the tradesman or professional man who obtains an income of 1000*l.* a year cannot so well afford to pay the income-tax as the individual who receives an income of the same amount from the funds, or from landed property. This is undoubtedly true, since the income of the tradesman or professional man is uncertain, and may be altogether lost in the event of his death; whereas the possessor of a permanent income can at his death leave it intact, to be distributed amongst his family. It is, therefore, indisputable that the income-tax ought not to be levied at an uniform rate, if the principle is admitted that each single tax should be so adjusted that every individual should contribute to it in proportion to his means, or, in other words, in proportion to his ability to pay the tax.

*The principle of equality, though true in the abstract, is impracticable in execution and unfair if applied to one tax alone.*

It has been stated in the preceding chapter, that this principle is in the abstract perfectly true, and it would no doubt secure equality of taxation, if it could be practically applied to adjust all the taxes that are imposed. But the impossibility of this has already been shown. No method of adjustment will cause individuals to contribute to taxes on commodities in proportion to their means; the amount which is levied from each individual, by these taxes, depends upon the quantity of a commodity which he consumes. Hence it has been concluded that equality of taxation is not necessarily promoted by adjusting some particular tax in such a way that each individual would contribute to it in exact proportion to his means. For instance, if the income-tax were adjusted in strict accordance with this rule, every

labouring man in the country ought undoubtedly to contribute his quota to the tax; and yet the introduction of such a change into our present fiscal system would certainly not promote equality of taxation. The labouring classes are most justly relieved from the income-tax; because, in the first place, it would be difficult to collect it from them, and in the second place, they contribute to such a tax as the duty on tea, a much greater amount, in proportion to their means, than is contributed by the wealthier classes of the community. The remission of the income-tax upon such incomes as are ordinarily possessed by labouring men, affords some compensation for the inequality of taxation which is necessarily associated with such an impost as the duty on tea. Inequality of taxation may be therefore rather increased than prevented by applying to any particular tax such a rule as that above referred to. Equality of taxation can be best secured, not by botching and patching each single tax, but by contemplating the revenue as a whole. If it is found that any tax presses unequally on any particular class, it is almost invariably better not to attempt to adjust the tax by any complicated arrangements; the inequality of taxation should be remedied by placing the particular class whom it prejudicially affects, in a relatively advantageous position with regard to some other tax. Thus the tea-duty presses very unfairly upon the working classes; but it is in every respect more desirable to compensate them for this inequality of taxation, by a remission of the income-tax, than to afford them compensation by attempting to make the tea-duty so equitable in itself, that every individual should contribute to it in proportion to his means. Various proposals for making the tea-duty a more equitable tax have been, and may be, suggested; for instance, one source of inequality would be removed, if the tea-duty could be made *ad valorem*. The duty which is now paid upon the tea consumed by the poor man is at least three times as great, in proportion to the value of the tea, as the duty which is paid upon superior tea. It has, however, been found almost impracticable to levy *ad valorem* duties upon such a commodity as tea; it was soon proved that these *ad valorem* duties entailed a series of complicated arrangements, which materially

*Equality of taxation to be aimed at by contemplating the revenue as a whole.*

*Some taxes, such as that on tea, cannot be made to operate fairly by themselves without producing greater counterbalancing evils.*

BOOK IV.  
CH. II.

*Impossibility of levying the income-tax so as to make every one contribute according to his means.*

interfered with the trade, and, consequently, the tax when made *ad valorem*, though apparently more just, was really more disadvantageous in its aggregate results than it was before. Let us therefore inquire whether similar obstacles would not oppose all the schemes which are often favourably received, for rendering the income-tax more equitable.

Almost insuperable obstacles at once suggest themselves, if an attempt is made to levy the income-tax in such a way that each individual should contribute to it in proportion to his means. It may be at once asked, How is it possible to supply any test or measure of the amount which a man can afford to pay towards a tax? Certainly such a test or measure is not provided by the nature of the source from which an income may be derived; for the income of almost every individual is obtained from a great variety of different sources; therefore some portion of his income may be permanent, and another part of it may be temporary. Consequently it is impossible to judge of an individual's means, by considering only one part of his aggregate income. Thus A may possess 2000*l.* a year in landed property, and may, in addition to this, derive 1000*l.* a year from his profession. Another individual, B, may possess only 500*l.* a year in landed property, but has a permanent income of 1000*l.* a year from the funds. On what grounds do those who oppose an uniform income-tax affirm that the 1000*l.* a year which B obtains from the funds, should be taxed at a higher rate than the 1000*l.* a year which A is supposed to realise from his profession? B is a much poorer man than A, and it therefore cannot be maintained that B, with regard to a portion of his income, should be taxed at a higher rate than A, because the former can better afford to contribute to the tax than the latter. In addition to the difficulty which has been just suggested, it would be necessary to fix the rate at which each kind of income should be taxed by arbitrary rules, which would be subjected to constant discussion and revision. With regard to professional incomes, it has already been said, that the solicitor whose practice is worth 1000*l.* a year is a far richer man than a barrister whose practice is of the same value; since a solicitor can either sell the good-will of his business, or leave it to his

children, whereas the practice of a barrister can neither be sold nor handed over to another. If, therefore, a permanent source of income is taxed at the rate of five per cent., what principles can be found which will tell us the amount of income-tax which ought to be levied from the incomes of solicitors and barristers respectively? There is also another reason of much force to be urged against the proposal to tax permanent and temporary incomes at a different rate. One of the chief objections which can be urged on economic grounds to an income-tax is that it is often a tax on savings, and therefore *pro tanto* discourages prudence. A simple example will show that this objection would apply with increased force if permanent incomes were taxed at a higher rate than temporary incomes. Thus, take the case of a professional man with an income of 3000*l.* a year who annually saves 1000*l.* a year, and suppose that an income-tax of 5 per cent. is imposed upon incomes obtained from a temporary source, whereas the tax levied from permanent incomes is 10 per cent. On the thousand pounds saved the income-tax levied in the year in which it is saved is 5 per cent., or 50*l.* The thousand pounds is invested to pay 5 per cent. On this income of 50*l.* an income-tax of 10 per cent. is levied, or 5*l.* a year. If therefore it is supposed that the income-tax remains permanently in operation, from the thousand pounds which is saved 50*l.* is in the first instance taken, and in addition 5*l.* a year is subsequently levied. As the value of a perpetual annuity of 5*l.* is 166*l.* it appears that from a thousand pounds which is spent only 50*l.* is taken by the income-tax, whereas the tax takes 216*l.* from a thousand pounds which is saved. These, and various other considerations which might be adduced, lead to the conclusion, that the present method of levying the income-tax cannot with advantage be materially changed. The income-tax, as it is now levied, avoids the difficulties and complications just referred to. It must also be remembered that, if the arrangements connected with any tax involve intricate details, the collection of the tax must be expensive. If, moreover, an attempt should be made to equalise this tax by a complicated process of adjustment, many practical difficulties would be sure to arise, which would probably lead to disputes and costly litigation; and thus even those

*The present system is probably the best.*

BOOK IV.  
CH. II.

will become more discontented, who are specially intended to be benefited by the adjustment of the tax. For instance, it may be mentioned that a considerable proportion of the aggregate amount yielded by the income-tax is, under existing arrangements, collected with the maximum of ease and the minimum of expense. This will be at once understood when it is remembered that the income derived from consols, bank-shares, railway-shares, and other similar investments, is paid in a lump sum before the dividends are distributed, and thus the cost of collecting from the individual fund-holder and shareholder is avoided. It would obviously be impossible to continue the arrangement if the rate of the tax varied with the amount of each individual's income, because it would be necessary before collecting the tax to ascertain what was the income from all sources of each fund-holder or shareholder.

*Objections  
to a  
graduated  
income-  
tax.*

The increase in the difficulty and cost of collecting the tax, if the rate of the tax varied not only with the nature but also with the amount of the income, suggests a strong argument against the adoption of what is known as a graduated, or progressive, income-tax. It has often been proposed that the rate of the tax should increase with the aggregate amount of each individual's income. It is obvious that besides the objection to which allusion has just been made, the proposal to make the rate of the income-tax progressively increase with the amount of the income would almost indefinitely strengthen the objection that the tax operates as a discouragement to prudence. It would be virtually sanctioning the principle that the proportion which the State should take from a man's income should increase in the direct ratio of the amount he might save. The force of this objection will be more fully understood when we proceed as we now do to consider the incidence of the tax.

*Meaning  
of the term,  
'incidence  
of taxa-  
tion.'*

As this expression—the incidence of the tax—has not been previously employed, it will be necessary to define it. It is quite evident that a tax is frequently not really paid by the person from whom it is levied; for instance, the beer duty is nominally paid by brewers, although it is really paid by the consumers of beer, since the price of beer is increased by the amount of the duty which is imposed. Similarly, all taxes on commodities are really paid by the

consumer, although the Government generally levies the tax from either the producer or the importer of a commodity. Hence, it is said that the incidence of these taxes falls on the consumer, and therefore the incidence of a tax may be considered to denote the real, in distinction from the nominal, payment of the tax. As another example it may be mentioned, that the incidence of the poor-rates which are levied upon the land, ultimately falls upon the land-owner; for, although such rates are generally paid by the farmer, yet the rent of the land would be so much greater if there were no such rates. If however there is a lease, any increase of rates falls upon the farmer during the continuance of the lease. The incidence of those taxes just mentioned, is very easy to trace; but with regard to the incidence of some other taxes, such as the income-tax, many questions of perplexity and importance are suggested. Some of these questions we will now proceed to consider.

It may perhaps be remembered, that when expounding some of the fundamental propositions concerning capital, the income-tax was occasionally referred to, in order to show the different results which ensue, according as the tax is paid out of capital, or is saved by means of increased economy. In the first case, the incidence of the tax partly falls on the labouring classes, whereas, in the second case, the incidence of the tax does not fall on any one but those who pay it. That this must be so is evident, from the following considerations. It has been frequently remarked, that the capital which supports the industry of a country is composed of two portions, which are respectively termed circulating and fixed capital. The circulating capital of a country is the source from which wages are paid. If, therefore, this fund is diminished, there will be a smaller amount to distribute amongst the labouring classes, and less average wages will be received. The fixed capital of a country consists of machinery, stock, implements, and, in fact, of every kind of wealth which exists in some permanent form, and which is intended to give assistance to the future production of wealth. If, therefore, any tax should diminish the fixed capital of the country, and should thus cause less machinery to be used, or fewer useful public works to be carried out, the industry of the country would be inter-

*The incidence of the income-tax will vary according as it is paid out of capital or saved from expenditure.*

*If paid out of capital the incidence will be to some extent upon the labouring classes.*

BOOK IV.  
CH. II.

ferred with, and the progress of the nation's wealth would be obstructed. If the income-tax were partly paid out of capital in a country which accumulates wealth rapidly, it is almost certain that the amount would be withdrawn, not from fixed, but from circulating capital. As far as the labourers are concerned, it in the first instance makes little difference whether the income-tax is paid out of circulating or fixed capital; because such fixed capital as machinery and railways can only be constructed by labour, and therefore, if a smaller sum is spent upon such works, a smaller sum will be distributed in wages. It therefore appears, that the aggregate wages which are paid must be diminished, if the income-tax be either wholly or partly paid out of the capital of the country. It consequently follows that, if any portion of the income-tax is paid out of capital which would otherwise be employed within the country itself, the incidence of the tax partly falls on the labourers, although the tax may never be directly levied from them. It will be instructive to explain the process by which the burden of this tax is, as it were, shifted from one class to another.

*Explanation of the process by which the incidence of the tax is thus changed.*

Let it be assumed that an income-tax of ten per cent. is imposed, and that throughout the country one half of the tax is saved from each individual's personal expenditure, whereas the other half is provided out of capital. Upon this hypothesis, an individual, A, who has an aggregate income of 2000*l.* a year, would be rated at 200*l.* a year; his net income is therefore 1800*l.* His personal expenditure is 1000*l.* a year, and he therefore annually saves 800*l.*, which he can invest as capital in his business. If there were no income-tax, his annual income would be 2000*l.*, but, according to our hypothesis, he will only spend one half of the 200*l.* a year, which would be added to his income if the income-tax were remitted; he would consequently each year save 900*l.* if there were no income-tax, and this sum he might employ as capital in his business. The amount of capital which he accumulates is therefore annually reduced by 100*l.* in consequence of the income-tax. Circulating capital is however employed in paying the wages of labourers, and therefore the income-tax may diminish by 100*l.* the amount which A annually pays to labourers; consequently this amount is as really paid by



the labouring classes as if the income-tax was directly levied from them.

It is impossible to assign the exact proportion of the income-tax which will be paid out of capital; but it is nevertheless quite certain that an income-tax would be paid out of capital to a far greater extent in some countries than in others. As an example, it may be mentioned that the industrial progress of India is retarded by a want of capital; her accumulation of capital is comparatively so small, that an income-tax could not be imposed in that country without diminishing the national capital, and in this way most seriously affecting the national wealth. In England, however, the income-tax produces none of these serious consequences; no branch of our industry which presents a fair chance of profit is ever retarded for want of capital; in addition to all the capital which we invest in our own commerce and trade, we always seem to possess an almost unlimited supply of capital for foreign investments, if the terms which are offered for the use of it are sufficiently remunerative. It may, therefore, with considerable certainty be concluded, that the income-tax does not seriously diminish the amount of wealth which is produced in this country; for although some portion of the tax is paid out of capital, yet this amount is probably withdrawn, not from fixed capital, but from circulating capital, and also from that portion of the country's capital which is invested abroad. We say that it is not fixed capital which is affected, because that part of fixed capital which consists of machinery, implements, and stock, is never sold for the purpose of paying the tax, nor can any one suppose that less machinery is employed in industry, or fewer useful permanent improvements carried out in consequence of the income-tax. Our circulating capital may no doubt, to some extent, be diminished; if this be so, a portion of the tax is virtually contributed by the labourers. In England, however, as well as in most other countries, the average amount of the income-tax which is respectively paid out of capital or saved from personal expenditure, varies greatly in the different sections of the community. Those who have incomes of 150*l.* or 200*l.* a year are usually obliged to deprive themselves of many things which they consider almost in-

BOOK IV.  
CH. II.

*The share  
of the tax  
paid out of  
capital  
varies in  
different  
countries.*

*It also  
varies  
greatly in  
different  
sections in  
the same  
country.*

BOOK IV.  
CH. II.

*In this country the effects of the income-tax are probably not so important as has generally been assumed.*

dispensable. Such persons, therefore, if released from the income-tax, would probably spend the whole additional income which the remission of the tax would give them. The wealthy merchant, however, who is worth his 20,000*l.* a year, would most likely not materially increase his personal expenditure, although the repeal of the income-tax might give him an additional 1000*l.* a year to spend. The additional 1000*l.* which he would thus annually accumulate would not induce him to extend his own business; he would probably invest the 1000*l.* in some security. It therefore appears that the additional capital which will be saved, if the income-tax is repealed, would be principally thrown into the money market for investment; the amount saved would not be employed as capital by each individual tax-payer, because in a country where so much commerce is transacted by credit, the individual tax-payer would, before the income-tax had been remitted, have had no difficulty in obtaining extra capital to embark in his business.

As far, therefore, as the capital of the country is concerned, the effects of the income-tax are not in this country so important as they are generally supposed to be; because, let it be assumed (and it is rather an excessive estimate) that 6,000,000*l.* out of the 9,000,000*l.* which an income-tax of five-pence in the pound would now yield would be saved as capital, if the tax were repealed. 6,000,000*l.* thrown into the money-market for investment cannot produce any momentous results upon the industry of a country whose wealth is so great that many millions have often been raised in a few days for foreign investments, without apparently exerting any influence upon our trade. The remaining 3,000,000*l.*, which, according to our estimate, is saved from personal expenditure, expresses the real amount of the temporary comfort and enjoyment of which the tax deprives the community. It has been already stated that to this last amount different sections of the community contribute in very unequal degrees; the wealthy man who is accumulating capital rapidly, does not spend less in consequence of the tax; his personal comfort is not in the slightest degree interfered with, and the only result of the tax to him is that he possesses a few thousand pounds less of realized property. Very

different consequences, however, result to those who possess the small incomes which just come within the range of the tax. For instance, an income just exceeding 400*l.* is taxed at the same rate as an income of 10,000*l.* There can be no doubt that the owner of such a small income as 400*l.* cannot pay even a few pounds towards an income-tax, without depriving himself or his family of the means of satisfying some real want or enjoyment of life. The income-tax, therefore, entails a far greater sacrifice upon such a person than upon the more wealthy man who can pay the tax without encroaching upon his personal expenditure.

The inequality to which allusion has just been made is attempted, in some degree, to be remedied in our own country by exempting all incomes of less than 150*l.* from payment of the tax. In order also to lessen the burden of the tax upon owners of small incomes, a deduction of 120*l.* is made before assessing the tax from all incomes between 150*l.* and 400*l.*; thus, if a man has an income of 300*l.*, he pays the tax upon an income of only 180*l.* It is obvious that this method of adjustment only partially removes the inequality which it is intended to remedy, because at the present time, an income of a few shillings over 150*l.* has to pay the tax upon 30*l.*, whereas an income a few shillings less than 150*l.* escapes the tax altogether. Again if a man has an income of 401*l.* a year, he pays the tax upon his entire income, whereas if he has an income of 400*l.*, he only pays the tax upon 280*l.* If, therefore, the income-tax were one shilling in the pound, a man with an income of 401*l.* would not be so well off by 5*l.* a year as the man with an income of 400*l.* The unfairness of such an arrangement is manifest. Mr Mill, adopting a suggestion of Bentham's, proposed a very simple scheme for the purpose of obviating this unjust anomaly. He maintained that the legislature ought, in the first instance, to decide what is the maximum income which should be allowed to escape the income-tax, and he considered that a decision upon this point ought to be chiefly guided by the principle that an income should not be taxed if it was not more than sufficient to provide its owner with the mere necessities of life. Such a principle would of course only enable a rough estimate to be made; the important thing, however, is to fix a limit. Let it, therefore, be supposed

BOOK IV.  
CH. II.

*The income-tax imposes great sacrifices upon persons with moderate incomes.*

*Mr Mill's proposal for obviating this injustice.*

BOOK IV.  
CH. II.

*Difference between this proposal and some other schemes which have been proposed. Mischievous nature of those which are unfavourable to the accumulation of capital.*

that the limit is 100% a year. Mr Mill proposed to deduct this amount from every income, and only tax the remainder. The owner, therefore, of an income of 120% a year would only pay the tax upon 20%. This plan manifestly provides a complete remedy for the inequality to which we have just alluded. The plan involves no practical difficulties, and is founded upon strict justice; since, if the tax is not imposed on an income of 100% because such an income is no more than sufficient to provide its owner with the mere necessities of life, the tax ought, with regard to all incomes, to be remitted upon a similar amount which has to be expended in the mere necessities of life.

The scheme advocated by Mr Mill is not to be confounded with the proposal for a graduated or progressive income-tax to which reference has already been made. It has been urged that an income of 10,000% ought to be taxed at a far higher rate than an income of 1000%. There is no doubt weight in the argument that the income-tax presses with unequal force upon the owners of comparatively small incomes, because the tax often involves some real sacrifice to them, whereas with regard to the very wealthy it in no way diminishes their means of enjoyment. It is however important to remember that the proposal to graduate the income-tax seems to sanction the principle that it is desirable to impose a penalty upon the accumulation of wealth. Any such scheme which is aimed against large capitals probably obtains popular support, because it seems to favour the prejudice which is so frequently expressed against what is termed the tyranny of Capital. There was a time when it was very generally believed by the labourers of this country that the owner of a large capital possessed a peculiar power to oppress them. Superior education and the extension of cooperative institutions are already beginning to make the labourers understand that as capital increases the fund for the employment of labour increases. As previously shown, one of the strongest theoretical arguments which can be urged against the income-tax, is based upon the fact that it is imposed upon savings. The man who has 10,000% a year, and spends the whole of his income, only pays the tax once; but the man who has an

equal income, and only spends a portion of it, pays in the first instance the same amount to the tax, and is also each year compelled to pay the tax upon the income which is derived from the investment of the amount which he has saved from his annual income. The income-tax, therefore, to a certain degree, encourages spending, and discourages saving. It therefore follows that one of the most serious objections which can be urged against the tax is greatly strengthened, if it should be so graduated that the tax is increased in proportion to the amount which an individual saves.

In conclusion, it is necessary to refer to a serious objection connected with the income-tax which cannot be obviated by any method of adjustment. It is evident that the tax can be accurately levied upon all incomes the amounts of which are publicly known. As previously stated, the Bank of England, when paying the dividends arising from the funds, deducts the income-tax, and hands the amount over to the Government. It is, therefore, impossible for a fund-holder to evade the tax. The tax is also similarly deducted from all official salaries, and also from the pay of officers in the army and navy. The amount of the tax which is levied from various other kinds of incomes is also regulated by definite rules. For instance, a farmer's income is estimated to be equivalent to one half his rent. If, therefore, his rent is 800*l.* a year, and if the income-tax is five per cent., the income-tax levied upon him will be 20*l.* His income may no doubt be either more or less than 400*l.* a year, but when the rule has once been made, he has no power to evade any portion of the tax, because the amount at which he is assessed is precisely determined. But with regard to various other classes of traders it is impossible to ascertain the amount of their incomes by any definite rules. The income of a manufacturer or retail trader can only be approximately estimated; an opportunity is thus afforded to evade a considerable portion of the tax. Morality is unfortunately too often based on conventionality; and many who pass for honest men do not hesitate to cheat the Government, although in the private transactions of life they would shrink from doing anything in the least degree dishonourable. Numerous cases have occurred which strikingly exemplify the dis-

*Objection to the income-tax from the difficulty of estimating some of the incomes upon which it is raised.*

BOOK IV.  
CH. II.

*The dishonesty which is occasionally thus produced*

honesty that is practised by many in their dealings with the Government.

The following well-known instance has frequently been quoted. A particular street in London was, during a certain period, closed for traffic in consequence of improvements which were being carried out. The business of the various tradesmen who lived in the street was prejudicially affected, and they consequently claimed compensation. The amount of compensation which each individual received was apportioned to the net income which he derived from his business. All the tradesmen, consequently, made a return of their incomes. As it was thought that these returns were excessive, they were compared with the amount of the incomes which these tradesmen returned for the assessment of the income-tax. In some cases there was no difference in the amounts returned for the two purposes. The result of the comparison however was to reveal that some of the tradesmen living in a respectable London street could practise so much deception that while for the purpose of assessing the income-tax they returned their incomes at a certain amount, the amount returned when pressing their claims for compensation was a very much greater one. It is therefore evident that, as long as such duplicity is prevalent, many will evade a part of the income-tax which they are bound to pay to the Government. Hence the tax operates with a certain degree of unfairness, because some classes of the community have a chance of evading the tax, whereas others have not.

*can scarcely be considered a weighty argument against the tax.*

The inequality which is caused by this power of evasion is not by many so much objected to as the general immorality which they conceive to be produced by such taxation. It is, for instance, maintained that the income-tax places so great a premium upon deception, that many who would otherwise be honourable, are tempted to deceive the Government. Little attention, however, ought to be paid to such an argument. The morality of those individuals who are so easily led away from the paths of virtue and honour is scarcely worth the fostering care of a Government. Every precaution should of course be taken to detect and punish those who make false returns, because the burden which they escape is thrown upon the rest of the community.

Although we have thought it desirable to direct attention to certain inequalities and other disadvantages connected with the income-tax, yet in our opinion it would not be expedient to repeal the tax. No tax which can be suggested is free from objections. If the income-tax were repealed many wealthy individuals might almost entirely escape contributing anything to the taxation of the country; and the money which the income-tax now yields would have to be made good by increasing the taxes on articles of general consumption which are chiefly used by the poor. Thus greater inequality of taxation would result from the repeal of the income-tax than from its maintenance.

## CHAPTER III.

### TAXES ON COMMODITIES AND OTHER INDIRECT TAXES.

BOOK IV.  
CH. III.

*Distinction between direct and indirect taxation.*

*Taxes on commodities are necessarily indirect.*

THE last chapter was devoted to the discussion of the income-tax, and although the tax manifestly differs in many essential respects from other direct taxes, yet the income-tax possesses many characteristics which are common to all direct taxes. We shall, therefore, be enabled, after having described indirect taxation in the present chapter, to compare or rather to contrast the two systems of taxation.

Direct and indirect taxation are words of such frequent use that they probably need no definition. It may perhaps, however, be well to state that a direct tax is really paid by the person from whom it is levied, whereas an indirect tax, though nominally paid by one person, is really paid by another. An income-tax<sup>1</sup>, and all assessed taxes, such as taxes on private carriages and dogs, are direct taxes; for they deprive those who pay them of an amount of wealth equivalent to the tax. But an entirely different result follows with regard to an indirect tax, such as the beer duty; for in such a case, although the beer duty is in the first instance paid by the brewer, yet the tax really comes out of the pockets of the consumers of beer, because the price which they are compelled to pay for beer is increased by an amount which must at least be equivalent to the tax imposed. It is,

<sup>1</sup> As explained in the last chapter, an income-tax is sometimes partly paid out of circulating capital. In this case the tax diminishes the sum expended in wages, and is therefore really paid by the labourers. But it is sufficiently exact to state that an income-tax is a direct tax because it is intended that the tax should take so much wealth from those upon whom it is levied. In the case of an indirect tax, such as the duty on beer, it is intended to tax the consumer of beer, and not the brewer who in the first instance pays the tax.



therefore, manifest that taxes on commodities are indirect; because if commodities are taxed they are increased in price, and consequently the consumers of the commodities really pay the taxes, although they may in the first instance be levied upon the importers or producers of commodities.

It must not, however, be supposed that there are no indirect taxes except those which are imposed upon commodities; for instance, a tax which is in its essential character direct, may become indirect by private and commercial arrangements, and by many other causes. Thus, in England, it is customary for the tenant-farmer to pay poor-rates; it is, however, evident that all such charges as these are really paid by the landowner, because if a farmer has to contribute 100*l.* a year to poor-rates, he is able to pay so much less a year for the use of the land he cultivates; consequently, if no poor-rates were imposed, the landlord might increase the rent of his farm by the whole amount which his tenant previously contributed to these rates. The same remark applies to various other rates, and also to tithes; it therefore appears that there is not necessarily an essential distinction between a direct and an indirect tax, for we have seen that a direct tax may be converted into an indirect tax, simply by a private commercial arrangement, since there is no reason whatever why the poor-rates should not in all cases be paid by the landlord, and not by his tenant. If this were done, the poor-rates would become a direct tax. It is, therefore, possible that the words direct and indirect, when applied to a tax, may denote only a nominal distinction; the tax, however, which is imposed on commodities cannot be made a direct one, since it would be impracticable to levy the tax upon each person who may have to purchase any particular article; consequently, the real points of distinction between the two different systems of taxation will be best elucidated by comparing the effects of a direct tax with those which result from a tax imposed upon a commodity.

At the commencement of this inquiry it may be important to remark that various commodities have been taxed in our own country, and are still taxed in many other countries, in order to protect native industry, and not solely for the purpose of obtaining revenue for the State.

BOOK IV.  
CH. III.

*Other taxes may become indirect,*

*and indirect taxes may be made direct.*

*The taxes considered here are those imposed for revenue,*

BOOK IV.  
CH. III.

not for protection.

*Taxes on commodities are almost invariably incapable of satisfying the condition of equality of incidence.*

*This may be partly compensated by other taxes.*

We intend hereafter to discuss the theory of protective duties, and we shall therefore, for the present, consider those taxes on commodities which are imposed for the sole purpose of obtaining revenue for the State. The last remnant of protection has been banished from our fiscal system, and every tax is now carefully adjusted with the view of placing the home and foreign producer in a position of equality.

As previously stated, a tax upon any commodity must almost invariably be opposed to Adam Smith's first canon of taxation, which affirms that 'each person ought to contribute to the revenue in proportion to his ability to pay.' Taxes on commodities cannot be framed in obedience to this rule, for various reasons. In the first place, it may be remarked that taxes on commodities can seldom be made *ad valorem*, and it is quite evident that from this circumstance great inequality of taxation must inevitably result. As an example it may be mentioned that every pound of tea which is imported into this country has at the present time to pay a tax of 6*d.* per pound. The inferior qualities of tea which the poor principally consume would, if admitted duty free, be retailed at a price certainly not exceeding 1*s.* per pound. It therefore follows that the tea which is used by the poor, who are the least able to contribute to the revenues of the State, is taxed at the rate of 50 per cent., whereas the superior qualities of tea which are purchased by the well-to-do at three shillings per pound, only pay a tax of twenty per cent. This inequality of taxation, which in a greater or less degree is common to those taxes which are imposed upon commodities, rarely admits of any practical remedy. For instance, it has been frequently proposed to make the duty on tea vary with the quality of the tea; but those who are most competent to form a practical judgment affirm that such a method of adjustment would be frustrated by the extreme difficulty and uncertainty of testing the quality of tea at the custom-house. As before remarked, the inequality to which we have just alluded, and from which taxes when levied upon commodities cannot as a general rule be freed, must as far as possible be compensated by making other taxes, such as the income-tax, fall most lightly on those who are the most injured by the particular inequality which we have just

described. These considerations induce us again to remark that equality of taxation can be most effectually secured, not by framing any one tax in obedience to Adam Smith's first rule, but by applying a general process of compensation to the whole revenue.

Let us next inquire to what extent taxes on commodities can be made consistent with Adam Smith's second rule, which states that 'the amount which each individual contributes to a tax ought to be certain and not arbitrary.' In one sense almost all taxes on commodities strictly obey this rule or principle of taxation. The producer or importer of a taxed commodity can always know the exact amount which the particular tax will levy upon him. If the duty on tea is 6*d.* per pound, the merchant who imports a cargo of tea can calculate with strict accuracy the amount of duty which the tea must pay; the same remark applies to the producer of a taxed commodity such as beer. The only case in which uncertainty can arise is when a tax is made *ad valorem*, because then the test which the government applies to ascertain the value of any commodity may be uncertain and imperfect in its operation. There has been an instance of this in the financial measures of Mr Gladstone. Within a few years the spirit duties have been raised, and when Mr Gladstone proposed in 1860 a great reduction in the duty on wine, he felt that the difference between the duty on wine and spirits was so great that the revenue might be defrauded by mixing spirits with wine, and importing the whole as wine. With a view of preventing such a fraud, he proposed to tax wine in proportion to the amount of alcohol it contained. The plan which was adopted to ascertain the quantity of this alcohol was denounced by those engaged in the wine trade as most vexatious; and they chiefly based their complaint upon the uncertainty of the tax when it was so imposed, for they affirmed that they never could tell beforehand the amount of duty which any particular wine would have to pay. It must, however, be admitted that such uncertainty with regard to taxes on commodities is exceptional, and rarely if ever exists, unless an attempt is made to adjust the tax according to some *ad valorem* standard.

The third rule of taxation laid down by Adam Smith

BOOK IV.  
CH. III.

*Taxes on commodities generally satisfy the principle of being certain.*

*There are however exceptions in the case of ad valorem duties.*

BOOK IV.  
CH. III.

*They are generally paid at the time most convenient to the consumer,*

*but frequently at a time inconvenient to the producer or importer.*

affirms that 'every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it;' the inquiry must therefore be made whether taxes on commodities are generally consistent with this rule. In making this inquiry it will be necessary to distinguish the real from the nominal payer of the tax; for it has been already stated that the burden of these taxes really falls upon the consumers of a commodity, although the tax is generally levied from the producer or importer. Taxes on commodities are no doubt paid, as far as the consumer is concerned, at a time and in a manner which is most convenient; for the tax is in fact levied upon the consumer at the time when he pays for the commodity which he may purchase. But the producer or importer of a commodity may be called upon, in consequence of defective financial arrangements, to pay the tax at a time and in a manner most inconvenient. Sometimes the inconvenience just alluded to is entirely due to injudicious financial arrangements; sometimes, however, it is inherent in the nature of the tax; when this is the case, the tax ought not to be imposed, except as a financial necessity. For instance, it seems that the duty on hops could not be levied, except in a manner which was most inconvenient to the growers of hops, and thus a strong argument was provided for the repeal of this duty. Hops were taxed at so much per pound, whatever was the quality or quantity of the crop; the tax was assessed immediately the crop was gathered in, and the hop-grower was compelled to pay the duty at a certain definite time, whether he had sold his hops or not. The hop crop is so uncertain, that the grower could never accurately calculate how much he should be called upon to pay. If he were not a man of large capital, he was compelled to sell his hops, whether he wished to do so or not, in order to pay the duty. A too abundant crop was also a great disadvantage to the grower; the demand for hops does not vary greatly from year to year, and, consequently, there must be great fluctuations in the price of hops, since the crop of one year is often three or four times as great as the crop of the next year. The amount of duty which a grower had to pay was proportionate to the abundance of the yield, and it therefore not unfrequently happened that a large crop

was most disastrous to the grower, because the maximum amount of duty had to be paid when the price of hops was extremely low. These, and other inconveniences, seemed to admit of no adequate remedy, and therefore the hop duty has been most properly repealed.

It generally happens that many of the inconveniences connected with the time and manner of levying a tax on a commodity can be greatly diminished by proper financial arrangements. As an example, the bonding houses may be referred to, which offer great facilities and advantages to those who import taxed commodities. A merchant may not wish immediately to sell the goods he imports, he is therefore permitted to place them in bond, and as long as they remain in bond he is not compelled to pay any duty upon them. This, no doubt, is a just arrangement, because the government intends that the consumer of the commodity should really pay the tax imposed upon it; therefore as short an interval as possible ought to elapse between the payment of the duty and the sale of a commodity. The merchant simply advances the tax, and if repayment is deferred, he will be compelled to employ a greater capital in his business, and the consumer will be consequently charged a higher price for the commodity.

The last rule of taxation propounded by Adam Smith affirms that 'every tax ought to be so contrived, as both to take out, and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State.' It has been previously stated that any tax which is expensive to levy will be inconsistent with this rule. The same remark holds true if a tax diverts labour from a productive to a more unproductive employment; if it encourages smuggling, and lastly, if it necessitates restrictive regulations with regard to the mode in which any trade or industry is conducted. Taxes on commodities cannot, as a general rule, be completely free from all the faults which have been just described, but the faults may be much mitigated by proper financial arrangements. A tax, whether levied on a home-produced commodity, or upon one which is imported, must be expensive to collect. A great number of excise and custom officers must be employed to assess and collect the tax; and an enormous outlay is often required

BOOK IV.  
CH. III.

*This inconvenience may be avoided by judicious arrangements, such as bonding houses.*

*Taxes generally take more out of the pockets of the people than they bring into the State treasury.*

BOOK IV.  
CH. III.

*The expenses of collection may be reduced by a judicious selection of taxes.*

*But the price may be unduly enhanced for the consumer.*

to prevent smuggling and other kinds of fraud. Smuggling is much more easily prevented in an island like our own, than in a country where a great extent of land frontier has to be protected. The difficulty of guarding 2000 or 3000 miles of frontier would render the imposition of custom duties most undesirable in such a country as America. The expense of collecting a certain amount of revenue by taxes on commodities is very much diminished, if the taxes are confined to a few articles of general consumption; when a tax is imposed upon some article of limited use, the cost of collecting the tax is always enormous in proportion to the amount yielded to the State. About thirty years since, the tariff of this country contained a list of 300 or 400 articles which were subject to either excise or custom duties. The great majority of these duties have been most properly repealed, and at the present time, tobacco, tea, coffee, wine, foreign spirits, and a few other articles, are alone subject to custom duties; beer and spirits being the articles which chiefly contribute to that portion of our revenue which is raised by excise duties. Again, with regard to smuggling, there can be no doubt that it is much discouraged by the removal of extremely high duties on articles which contain a great value in small bulk, and which can therefore be readily concealed. A tax on a commodity may, however, in various ways which are not so frequently noticed, take out of the pockets of the tax-payer an amount which greatly exceeds that which the tax yields to the State.

In the first place it may be stated that when a commodity is taxed, the price which the consumer has to pay for it is increased by an amount which often exceeds the amount of the tax. Thus let us take the case of a tax being levied under very favourable circumstances, and suppose, as an example, that a retail grocer buys so many chests of tea direct from bond. The amount of tea which he buys we may assume to be 3000*l.*; the value of this tea would not probably exceed 2400*l.*, if tea were admitted duty free, because, considering the average quality of the tea sold, the duty on tea may be estimated at twenty-five per cent. upon its value. The grocer, when he sells this tea retail, will of course expect to realise the ordinary trade profit. This profit we will suppose to be twenty per

cent.; the grocer will therefore obtain 3600*l.* for the tea, which cost him 3000*l.*, whereas if it were not for the duty, the grocer would be obliged to give only 2400*l.* for the same quantity of tea, and would be remunerated with the same per-centage of profit, if he sold his tea to his customers at such a price as would realise for him 2880*l.* It therefore appears that those who purchase this tea pay 720*l.* additional for it, although only 600*l.* of this amount is received by the government as duty. Hence, upon this hypothesis, the duty takes out of the pockets of the taxpayers twenty per cent. more than it gives to the revenue of the State. This is the most serious objection which can be urged against taxes on commodities, and it is one which has not been adequately considered. It must, moreover, be remembered that the case just described does not as a general rule adequately represent the amount which a tax on a commodity keeps out of the pockets of the people beyond what it yields to the State. For instance, it has been assumed that the tea is purchased by the retail grocer direct from bond, but no doubt it much more frequently happens that the tea, after it is taken from bond, passes through the hands of four or five dealers, before it is ultimately sold to the consumer. If, therefore, it is supposed that tea pays a duty of twenty-five per cent. upon its value, each of these dealers will require twenty-five per cent. more capital to conduct his trade in tea. The ordinary profit of trade must be realised upon the additional capital which is thus required to be employed; consequently, when a commodity is taxed, the consumer is generally compelled to pay for it a price which is increased to an extent considerably exceeding the amount of the duty.

A more serious defect cannot belong to any tax than that it should take from the tax-payer an amount which greatly exceeds that which it yields to the revenue. This defect, to a greater or a less degree, accompanies all indirect taxation; for all indirect taxes are in the first instance paid by the producers or importers of a commodity, who are remunerated by the increased price which the consumer is compelled to pay. In every instance, some time must elapse between the payment of the duty and the sale of a commodity, and, consequently, the trader who first

*This is the most serious objection against taxes on commodities.*

*It affects to some extent all taxes on commodities.*

BOOK IV.  
CH. III.

advances the tax must wait for a certain time before he is repaid by the consumer. But the trader is compelled to employ a portion of his capital to make this advance, and upon this capital he will expect to obtain the ordinary trade profit; this profit the consumer must return to him, in addition to the amount of the tax. This most serious defect, though inherent in all taxes on commodities, may be very much diminished by proper precautions. Thus it is evident that as short an interval as possible ought to elapse between the levying of a tax on a commodity, and the time when it is ready for consumption. On this account it is much more desirable to tax manufactured goods than the raw material. In order to illustrate this point still further, let us briefly trace the different results which would be produced by a tax on raw cotton, and by a tax on cotton goods.

*Illustration of the fault. Results of taxing raw cotton*

It may be assumed that the two different taxes yield the same amount to the revenue. Let it in the first instance be supposed that raw cotton is taxed, and that a manufacturer who purchases 10,000*l.* worth of raw cotton has to pay 1000*l.* duty. The tax, therefore, compels him to employ a capital of 11,000*l.* instead of 10,000*l.* Upon this additional capital he will expect to realise the ordinary trade profit, which may be assumed to be ten per cent. At the end of a twelvemonth he sells the goods which have been manufactured from this raw cotton to warehousemen; since, however, the duty imposed on the raw cotton has necessitated the employment of 1000*l.* additional capital, the price of these manufactured goods must in consequence of the tax be increased by 1100*l.*, and not by 1000*l.*, which is the amount really received by the government; for if this were not so, the manufacturer would not be adequately compensated for the capital employed in his business.

*or manufactured cotton goods.*

Let us now make a second supposition, and consider the tax to be paid upon the manufactured goods. Then the manufacturer would not be called upon to pay the tax, until his goods were actually purchased by the retail dealer, or warehouseman, and consequently the tax would not compel him to employ a larger capital in his business. In this case, therefore, the price of the goods, when sold by the manufacturer, will not be increased by an amount



exceeding the amount of the tax. It therefore appears that a tax on manufactured goods, if it can be easily levied, is far preferable to a tax on raw material. It however not unfrequently happens that a manufactured commodity cannot be taxed without subjecting the particular trade to the most injurious interference; for in order to assess an excise duty, and in order to prevent fraud, various kinds of restrictions with regard to the particular mode in which trade is carried on must be enforced, and great annoyance is often caused by the vexatious visits of the excise officers. Thus few taxes on a manufactured commodity could be assessed and collected with greater facility than the duty on malt, yet maltsters were compelled to carry on their trade according to certain strict rules. Notice, for instance, had to be given when the barley was to be wetted; the barley, when wetted, had to be thrown out in a particular manner on the floors to be dried, and the exciseman could visit the malt-house whenever he pleased. These hindrances to trade were justly regarded as so serious that they formed one of the chief reasons why, in 1880, it was determined to substitute a duty on beer for the duty previously levied on malt. Such interference would be a still more serious evil, if some commodity should be taxed which involved complicated processes of manufacture, each of which had to be conducted according to certain rules, and to be watched by government officers, in order not only to prevent fraud, but to assess the tax. Such interference would oppose an insurmountable obstacle to the development of a branch of industry, for all that enterprise would be checked which stimulates the introduction of machinery, and other industrial improvements.

The remarks hitherto made in this chapter have been restricted to the import duties and to the excise duties that are imposed upon the commodities which are consumed in the country; the government, in fact, intends that the burden of these taxes should fall on the consumers. It is, however, manifest that various exported commodities may be also taxed; but it has been thought desirable to consider separately the operation of export duties, because these duties are imposed with the view of shifting the burden of the tax upon foreign countries.

BOOK IV.  
CH. III.

*The last tax would take much less from the consumer.*

*Taxes on manufactures however cause annoyance in other ways.*

*Question of taxing exports.*

BOOK IV.  
CH. III.

*Effects of  
an export  
duty such  
as a duty  
on coals.*

It will, moreover, be shown that, contrary to popular opinion, it almost invariably happens that, in attempting to tax the foreigner, the country that imposes an export duty taxes itself.

To discuss the operation of export duties, it will be necessary to recall some of the principles which were established with regard to international trade. When investigating that subject it was proved that there is a constant tendency in operation to make the exports of a country pay for its imports; it was also shown that the amount of profit which each country derives from interchange of commodities varies inversely with the demand which the one country has for the products of the other. Let us, therefore, bear these principles in mind when tracing the effects of an export duty. One of the most recent export duties that has been proposed was an export duty upon coal; this financial measure met with a considerable amount of support in parliament in 1860, at the time when the details of the commercial treaty with France were being discussed. Let it be assumed that a duty of 2s. was levied upon each ton of coal exported. The price of English coal in foreign countries would in consequence of the tax be increased two shillings per ton. The demand for commodities always varies inversely with their price, and therefore this increase in the price of coal would diminish the demand for English coal in foreign countries. The export of coal from England would consequently be diminished; the decrease in the export would be greater with regard to some countries than with regard to others. France, for instance, purchases coal from Belgium, and if Belgian coal remained untaxed, France might probably cease to import coal from England if our coal was subject to an export duty. It therefore appears that the first result of any export duty would be to diminish the amount of our export trade. The commodities which were subject to an export duty would decline in price to the home consumer in consequence of the foreign demand for them being checked. It might therefore seem that an export duty on such an article as coal would confer two great advantages on the general body of the tax-payers; in the first place, it would cause foreigners to contribute to our revenue, and thus relieve us of a portion of our

*Its apparent advantages.*

taxation; secondly, the price of coal would be reduced, and this would be advantageous to the nation at large.

It may, no doubt, be urged as a set-off to these apparent advantages, that the coal trade would suffer in consequence of this diminution in the export of coal, and that the owners of collieries would realise smaller profits, owing to the fall in the price of coal. It may, however, be rejoined, that the loss which thus accrues to those engaged in a particular branch of industry is more than compensated by the advantages which we have shown would be conferred upon the general body of the tax-payers. But an important point still remains to be determined; for the effect which might be produced upon our import trade, if our exports were checked by the imposition of a duty, has not yet been considered.

In order to investigate this question it may be supposed that an export duty upon coal has caused France to cease importing coal from this country. It has been already proved that exports are exchanged for imports; it is, therefore, manifest that if the export trade of a country is diminished, the amount of her imports, other things remaining the same, must also be diminished; this must be so, because the commodities which are exported pay for those that are imported. Such a decrease in the foreign trade of a country must diminish national wealth; since it has been shown that foreign commerce increases the efficiency of labour and capital, by enabling each country to apply itself to those branches of industry for which it possesses the greatest natural advantages. It therefore follows that the question, whether or not an export duty is advantageous as a financial measure, must be mainly determined by the circumstances of each special case. For instance, it is quite possible that an export duty may entirely prevent the export of a commodity; this would no doubt be the result if an export duty were in this country imposed upon silk manufactures. The competition between France and England in the silk trade is extremely keen; on the one hand, France has cheap labour, and her clearer climate is supposed to give a superior colour to her dyes. On the other hand, England can perhaps manufacture more economically, because she possesses more perfect machinery and cheaper fuel. It is

BOOK IV.  
CH. III.

*A partial  
set-off to  
them.*

*Investiga-  
tion of the  
effects pro-  
duced on  
our import  
trade.*

consequently difficult to decide whether France or England can sell silk goods to foreign countries at the cheapest rate. It is, therefore, evident that the imposition of even a small export duty upon English silks would, as far as this branch of industry is concerned, completely drive England from foreign markets. The prosperity of an important branch of industry would thus be imperilled, and an export duty under such circumstances would be most disastrous and indefensible.

A much more favourable case for the imposition of an export duty will next be considered. It cannot be disputed that the United States have hitherto possessed to a great extent a natural monopoly for the growth of cotton. No other country has been able to produce cotton of so good a quality at so cheap a rate. Let us, therefore, trace the consequence which would have ensued if a small export duty, say of a halfpenny or a penny per lb., had been imposed upon American cotton. Even so small an export duty as this would have yielded a considerable amount to the revenue of the United States. Foreign countries who purchased American cotton would of course be compelled to pay this duty, and it will therefore be instructive to inquire whether such a financial measure would in any way have prejudicially affected the material interests of the United States. The first effect of such a duty would manifestly be to raise the price of American cotton in all countries which import it by an amount at least equivalent to the duty. If the duty was a penny per lb., England would be compelled to pay sixpence instead of fivepence per lb. for American cotton. It may be perhaps thought that this rise in the price of American cotton would induce England to obtain cotton from other sources of supply; this, no doubt, would be so, if other countries possessed the same advantages for the production of cotton as America. It therefore follows, that it would be most unwise to impose an export duty either on a raw or a manufactured commodity, if the commodity could be produced on as favourable terms by other countries as by the country which imposes the export duty. But with regard to cotton, it was shown during the civil war in America that, without the United States, it is impossible for England and other countries to obtain the quantity of raw cotton which they

require. The available supply from other sources was in fact so limited, that a rise in the price amounting to 200 or 300 per cent. failed to bring us so large a quantity of cotton as we were willing to purchase at even these high rates. Until, therefore, the resources of India and other countries are more fully developed, it cannot be supposed that we should resort to other countries for raw cotton if the United States imposed a small export duty upon this material. The rise in the price of cotton which would be caused by this duty would slightly diminish the quantity of cotton which such a country as England would purchase. If the English manufacturers have to pay a higher price for raw cotton, they must charge a higher price for manufactured goods, and if the price of cotton goods is increased, the demand for them will be diminished. But a very slight rise in the price of cotton goods would be sufficient to compensate the manufacturer for a rise in the price of the raw material, and so slight a rise in price would exert but little influence upon the demand for a commodity which is not used as a luxury, but which serves to provide one of the necessities of life. It is impossible to predict the position which the cultivation of cotton may in future occupy. The United States had, for some time previous to the war, possessed a natural monopoly for the growth of cotton; as long as this natural monopoly continued, the imposition by the United States of a small export duty upon raw cotton would have been politic, considered merely as a financial measure. Although, in the special case just investigated, we have spoken somewhat favourably of an export duty, yet it must be borne in mind that our remarks were based on the fact that the United States possessed, with regard to the growth of cotton, a natural monopoly. This, therefore, is quite an exceptional case: an export duty would almost invariably, as shown in a previous example, jeopardise the export trade of a country, and thus diminish the national wealth.

We have hitherto, in this chapter, considered that import duties are imposed for the sole purpose of obtaining revenue for the State. But until a very recent period it was almost universally believed that another most important end was attained by import duties. Fifty years since the theory of protection was as generally accepted

*Such a duty might not seriously affect the price of manufactured cotton,*

*and might, as an exceptional case, be financially politic.*

*Import duties imposed for the sake of protection.*

in this country as it is now discarded. In America, in France, and in most continental countries, the great majority of politicians are even at the present day ardent protectionists. It is, therefore, still extremely important, as a practical question, to investigate the effects of import duties when they are imposed for the double purpose of obtaining revenue, and of protecting native industry. It is quite evident that an import duty can be easily arranged so as to obtain the double object. We have already, for instance, alluded to the closeness of competition in the silk-trade, between France and England. If, therefore, an import duty, say of ten per cent., should be placed upon French silks, and if at the same time English silks should be subject to no excise duty, it is manifest that French silks would probably be almost entirely excluded from the English market. A similar end might be attained with regard to all other imported commodities which compete with commodities of the same kind produced at home. It is consequently possible to limit, or altogether stop the importation of a commodity, by subjecting it to a sufficiently high import duty.

*A protective tariff always involves a waste of capital and labour.*

The principles which have been established with regard to international trade clearly prove the loss which the nation suffers if protective duties either prevent or check the importation of commodities. When trade is carried on between two countries, the wealth of each is increased, because each country is enabled to apply its labour and capital to those branches of industry for which it possesses the greatest natural advantages. Thus reverting to our previous illustration, it has been assumed that the cost of growing corn, compared with the cost of producing iron, is much less in France than in England. It may, for instance, be supposed that a ton of iron costs as much to produce, in France, as ten sacks of wheat; whereas, in England, a ton of iron would only be equivalent in value to six sacks of wheat. It is, therefore, easy to perceive the loss which France and England would both suffer if protective import duties imposed in France upon English iron should prevent the importation of English iron into France, and if protective duties imposed in England upon corn should prevent the importation of French wheat into England. Such a protective tariff would cause labour

and capital to be wasted, or, in other words, would deprive them of a part of their productive power. Six sacks of wheat cost England as much to produce as one ton of iron; but if the trade between England and France were unrestricted, England might divert a portion of her labour and capital from the growth of wheat to the production of iron for France; it would be manifestly greatly to the advantage of France to give England eight sacks of wheat for each ton of iron. Hence, unrestricted trade so much increases the wealth of a country, that a certain amount of labour and capital, which before would only obtain six sacks of wheat, now produces a ton of iron, in exchange for which a foreign country will willingly give eight sacks of wheat.

The argument just adduced, considered in conjunction with the remarks which have been made upon international trade, may be regarded as conclusively demonstrating the injurious effect which is produced upon a nation by protective duties. Protectionists, however, ignore this loss of national wealth; they advocate the protective system, because they conceive that, without its support, some special branches of industry would be unable to compete against foreign countries. It might, for instance, be argued that it would be impossible for the English farmer to compete against the French farmer, if wheat can be grown at a much cheaper rate in France than in England; on the other hand, it would be equally impossible for the French iron-master to compete against the English iron-master, if cheap English iron is freely imported into France. It is, therefore, plausibly argued that free trade is a dangerous experiment if it should cause the agricultural interest to be ruined in England, and the iron interest to be ruined in France. It can, however, be easily shown that no class of traders can either be permanently benefited by protective duties, or permanently injured by free trade. Landowners are the only class that can derive a lasting advantage from protection. Property in land may be described as the possession of a natural monopoly. The value of this natural monopoly may be artificially raised by protection, but it can be shown that other circumstances almost invariably deprive even the landowners of this special advantage.

*Protectionists ignore this loss, and point out the temporary evils inflicted upon home industry by free trade.*

BOOK IV.  
CH. III.

*A consideration of free trade in corn in England shows that it cannot permanently injure any class of English traders.*

The effect produced by the corn-laws on the position of the English farmer, may be quoted to prove that no class of traders can be permanently benefited by protective duties. The restriction which the corn-laws imposed upon the importation of corn no doubt increased its price in this country; it was therefore concluded that protection, because it increased the price of corn, conferred a special benefit upon the English farmers. It must, however, be borne in mind that permanent low prices are as advantageous to the English farmer as permanent high prices. In a country like our own, where there is great commercial enterprise, the competition of capital is constantly exerting a tendency to equalise profits in different trades. If the price of all agricultural produce should be doubled, the farmer's gross returns would *cæteris paribus* be doubled; his profits therefore would be enormously augmented, if he were able to appropriate to himself all these additional returns. But if the profits of the farmers, or of any other class of traders, should be greatly increased, an active competition for farms would be at once stimulated, the rent of land would consequently rise, the profits of the farmer would soon be reduced to their former amount, and thus the landowner, and not the farmer, would be ultimately benefited. Again, if the price of agricultural produce should be reduced by foreign importations, the profits of the farmer might be greatly diminished; traders, however, will cease to carry on a business, if they are unable to realise from it the ordinary rate of profit. Landowners will, consequently, be obliged to submit to a reduction of rent; hence, it is not the farmer, but the landowner, who would ultimately suffer. Of course, farmers may be temporarily benefited by a sudden rise in prices, or temporarily injured by a sudden fall. For instance, many farms are let on lease, and the rent of such farms cannot therefore be either immediately raised or immediately lowered. When, moreover, the profits which are realised in a particular trade are affected by a sudden change of prices, a considerable time must elapse before the trade is again restored to its normal or steady condition; during this interval the trader may either secure exceptionally great gains, or may have to submit to an unusually low rate of profit.



It has been proved, as a possible theoretical result, that the landowners may be injured by the abolition of protective duties. The experience which has been derived from the introduction of free trade into this country has shown that the landowner will generally receive compensation in various ways. During the last few years there has no doubt been a considerable depression in English agriculture, and rents have fallen. Still, however, the value of agricultural land, except in a few cases, is much higher now than it was before the corn-laws were repealed, and it seems certain that as the depression has been mainly produced by a succession of bad seasons, there will be again a rise in rents when more favourable times return. The rise in rent and the increase in the value of land which until quite recently took place almost uninterruptedly after the introduction of free trade may be readily explained; for although the price of wheat has been reduced by foreign importations, yet a more than corresponding rise has taken place in the price of other kinds of agricultural produce. Meat, dairy produce, and even barley, are much dearer now than they were previous to the repeal of protective duties. It must moreover be remembered, that the rise in the price of these articles is in a great measure due to free trade. Our commerce, released from the trammels of protection, has expanded in the most extraordinary manner. An augmentation in our export trade amounting to 100,000,000*l.* represents an enormous addition to the accumulated wealth, or, in other words, to the capital of the country; but if the capital of the country is augmented, the amount spent in wages is sure to be increased, and thus the additional wealth which has been created by unrestricted commercial intercourse has been distributed amongst the nation at large. The population having largely increased and the people having been made wealthier, a greater quantity of meat, dairy produce, and beer is consumed. Meat and dairy produce are expensive to import, and barley, after being for a length of time in the hold of a ship, does not make good malt. Hence these commodities have all greatly risen in price; farmers have consequently been able to pay higher rents than they could when they were protected by prohibitive duties, and for many years after the introduction of free trade growing prosperity for the landed

BOOK IV.  
CH. III.

*Free trade might cause temporary injury to landowners; but, in practice, can rarely produce that effect.*

BOOK IV.  
CH. III.

*Particular branches of industry may suffer from free trade for a time, but its ultimate effects must be beneficial,*

*for it cannot be a loss to a country to import commodities instead of producing them.*

interest was substituted for the impending ruin which was so often gloomily predicted by protectionist statesmen.

Foreign competition may, no doubt, cause some particular branches of industry to be altogether relinquished, if the industry has been artificially sustained and fostered by protective duties. As an example, it may be mentioned that this country, following the example of France, might have imposed high import duties upon sugar, with the view of encouraging the home-manufacture of sugar from beet-root. A home-sugar interest of great importance might thus have been artificially created; if, however, the support of protection should be removed, it would be impossible for the producer of home-grown sugar to compete against the foreign importer; this particular department of native industry would therefore be immediately destroyed. Such a destruction of a branch of industry may be perhaps regarded as disastrous, because it may be thought that labourers would be thrown out of employment, and capitalists would be deprived of an eligible investment for their capital. The labourers engaged in one particular kind of industry no doubt suffer a loss if they are compelled to relinquish the labour to which they are accustomed; each branch of industry requires some special skill or knowledge, and consequently those who are compelled to engage in a new kind of labour lose the advantage of their acquired skill. Again, employers always suffer a certain amount of loss if they are obliged to relinquish the industry to which they are accustomed; they also possess a special knowledge, which they must to a great degree sacrifice, and capital cannot be transferred from one employment to another without considerable waste. In every branch of industry there is a large amount embarked in the form of fixed capital; machinery, buildings, and plant, cannot be converted to a new use without involving great expense. These temporary disadvantages may no doubt accompany the removal of protective duties, but an abundant compensation is provided by the great benefits which are sure ultimately to result from free commercial intercourse. The general body of the consumers are provided with cheaper commodities, and the wealth of the country must be increased, because labour and capital are both rendered

more productive. The principal argument which foreign protectionists still urge against free trade would be removed, if it is once clearly perceived that it cannot be any loss to a country to import commodities instead of producing them. If commodities are imported, commodities of an equivalent value must be exported to pay for those which are imported. If, therefore, the introduction of free trade causes a nation to purchase commodities, instead of producing them herself, the aggregate wealth in the country cannot be diminished—labour and capital are simply transferred from one industry to another; since, if a greater amount of commodities is purchased from foreign countries, a larger quantity must be also produced at home, in order to supply the increased exports which pay for these additional imports.

The old battle between Protection and Free Trade is being fought out in our Australian colonies. The Melbourne correspondent of the *Times*, in one of his able letters, tells us that the protectionist party defend their conduct by quotations from the works of many political economists, including, amongst others, the late Mr J. S. Mill. It is scarcely necessary to say that Mr Mill explained the mischievous fallacies of protection probably more clearly than any other writer. The Colonial protectionists maintain that he supports their views, because in one passage of his *Principles of Political Economy* (*vide* Book v. Chap. x.) an opinion is expressed, that in the case of a young colony a protective duty may occasionally be wisely imposed, if it can be clearly shown that this artificial encouragement may cause some branch of industry to be permanently and prosperously established in a colony, and if it can also be shown that this branch of industry might never have been introduced, if it had not been first stimulated and fostered by protection. Mr Mill makes this exception in favour of a protective duty, because he supposes that any industry when first established in a colony has always to struggle with peculiar difficulties. The colony therefore will be placed under a great disadvantage, if it has to compete with a country in which some particular industry has been carried on for a long period. The colonial trader will relinquish this unequal struggle unless he receives some assistance from the State in the form of protection, and

*A consideration of Mr Mill's 'young country' argument.*

thus many different kinds of industry, for the successful prosecution of which the colony may perhaps have peculiar advantages, will be virtually banished from the colony. The arguments of the Colonial protectionists are thus presented in their most plausible and favourable form. Mr Mill no doubt put a strong case, if we assent to the hypothesis upon which it is based. But in our judgment he over-stated the peculiar difficulties which an industry has to contend with, when first introduced into a new colony. Australia has purchased from England nearly all the manufactured commodities she requires instead of producing them herself, because in England labour, machinery and fuel are cheaper than they are in Australia. There is apparently no reason why these circumstances, which give to England a superiority in manufacturing industry, should act with less force if the Australians are induced to form manufacturing establishments by the promise that British goods shall be excluded from their markets. As long as labour, machinery, and fuel continue to be so dear in Australia, that it is cheaper to buy goods in England and to pay in addition the cost of carrying them 12,000 miles, it cannot be supposed that manufacturing industry will thrive in this colony. But if, in the course of a few years, the economic condition of Australia should change; if, for instance, labour should become so much cheaper in that country, that woollen or cotton goods could be made there cheaper than they could be imported from England, then it appears to us quite certain that woollen or cotton manufactures would thrive in Australia, and that their progress would not be impeded by any special difficulties, which are so formidable that they can only be vanquished by a protective tariff. The most serious objection, however, to Mr Mill's argument in favour of protection in a young colony, arises from the difficulty of abolishing a protective duty when it has been once imposed. Mr Mill's case rests upon the supposition that protection may be resorted to as a temporary expedient, and that when the industry which has been thus fostered is strong enough to stand alone, the protection it has received can be easily relinquished. The experience of the United States, however, conclusively proves that those who are interested either as employers or employed in any particular industry, which has been pro-

*The difficulty of abandoning a protective policy.*

ted, will not thus voluntarily accept free trade. Mr D. A. Wells, the well-known American economist, has said, "Although the main argument advanced in the United States in support of protective duties is that their enactment is intended to subserve a temporary purpose, in order to allow *infant* industries to gain a foot-hold and a development against foreign competition, there never has been an instance in the history of the country where the representatives of such industries, who have enjoyed protection for a long series of years, have been willing to submit to a reduction of the tariff, or have voluntarily proposed it. But, on the contrary, their demands for still higher and higher duties are insatiable and never intermitted." It is remarkable that this demand for protection should have arisen in a community where the wages paid are higher than those which are received by the labourers of any other country. Moreover, in Australia the position of the capitalist is as satisfactory as that of the labourer, for in previous chapters it has been frequently remarked that in Australia fertile land is so abundant, and as a consequence the production of wealth is carried on under such advantageous conditions, that profits as well as wages are extremely high. It is therefore evident that the various kinds of industry which flourish in that colony must be singularly remunerative, and the community must incur a serious loss if protective duties should artificially stimulate certain trades, which would be less productive of wealth in proportion to the labour and capital invested in them, than are the various branches of industry which are now carried on. Hence in this, as in every other case, protection would exert a mischievous tendency to cause labour and capital to be transferred from one industry to some other which is less productive of wealth. In Australia the accumulation of wealth may be augmented almost without any assignable limit, if a sufficient supply of labour is forthcoming; and the protectionists in that country should not lose sight of the fact that their policy will make imported commodities dearer, and will thus diminish the advantages which a labourer will derive from emigrating to that colony.

In the present and preceding chapters the chief circumstances connected with direct and indirect taxation have

BOOK IV.  
CH. III.

*A comparison is frequently made between direct and indirect taxation.*

*Such general comparisons are futile.*

*An adherence to either kind of taxation exclusively must produce bad effects.*

been briefly reviewed. Writers on taxation usually make a comparison of these two different systems, and attempt to balance the advantages and disadvantages of each. We think, however, that it is impossible fairly to make such a comparison, and the attempt may possibly lead to mischievous results. For instance, if it can be shown that direct taxation is more in accordance with Adam Smith's four rules than indirect taxation, the proposition is at once propounded that the whole revenue of the State ought to be raised by direct taxation. Some of the evil consequences which would be produced if such a proposal were carried into practical effect have been explained in this chapter. Direct and indirect taxation are both respectively accompanied by certain defects and inequalities which can only be partially remedied. It is impossible to decide with certainty, whether the defect which may belong to a direct tax is comparatively of greater moment than another defect which may be inseparably connected with a tax on a commodity. Thus an income-tax may be reasonably objected to on two distinct grounds: in the first place, it taxes savings, and therefore discourages the accumulation of capital; in the second place, it cannot be accurately assessed with regard to certain classes of incomes. All taxes on commodities are, however, subject to certain imperfections which are peculiar to this particular kind of taxation. Thus a tax on a commodity can be seldom made *ad valorem*, and therefore such a commodity as the tea which is purchased by a poor man, is far more highly taxed than the tea which is purchased by the rich. What test therefore will decide whether the inequality consequent upon the difficulty of making taxes on commodities *ad valorem*, is of more serious moment than the discouragement which an income-tax places on the accumulation of capital?

It should moreover be remembered that some particular section in the community must suffer a special injury, if the incidence of a tax is unequal and unfair. Inequality of taxation really signifies that a tax takes an undue amount from some one class; it is therefore evident that all the particular defects which belong to each tax would be intensified, and would produce a concentration of inequality with regard to some one class of the community.

if any tax should be so greatly increased that a large part of the revenue should be raised by it. For instance, the advocates of direct taxation would repeal most of the existing taxes on commodities, and would substitute an income-tax in their place. An income-tax of 4s. in the pound would thus be probably required, and such a tax could not be raised without increasing the evil consequences of an income-tax in a far greater ratio than the increase in the amount of the tax. Thus it is probable that our present income-tax does not to any serious extent discourage the accumulation of capital. But an increase of the income-tax to 4s. in the pound would so powerfully check the accumulation of capital, that the production of wealth would be greatly diminished, and the amount spent in wages would also be so much decreased, that the wages of the labourers would be considerably reduced. Again, if the chief part of the revenue of the State were raised by an income-tax, the inequality of taxation would be greater than any existing at the present time, since certain classes, such as traders and manufacturers, can escape a portion of the tax without much fear of detection. Hence it seems it would be unwise to obtain the revenue of a country exclusively by either direct or indirect taxation.

Before concluding these remarks on the general principles of taxation, it will be well to refer to the question whether or not it is desirable to maintain taxes with the object of reducing debt. Reference has already been made (vide p. 140) to the extent to which the national debts of most European countries have increased since 1850. There has also been a great increase in the debt of India during the same period. The civil war in America led to the creation in 4 years of a debt of no less than 556,000,000*l.*; this debt has been reduced in little more than 20 years to 400,000,000*l.* In 1848 the national debt of England exceeded by 74,000,000*l.* the national debts of all European countries put together<sup>1</sup>. Until quite recently no serious effort has been made to reduce the debt of England, and at the close of the Crimean war in 1855, her debt was 834,000,000*l.*, or only about 66,000,000*l.* less than it was at the conclusion of the wars with Napoleon in 1815.

*Should taxes be imposed with the object of paying off debt?*

<sup>1</sup> See *National Debts*, by the late R. Dudley Baxter, p. 77.

BOOK IV.  
CH. III.

*The  
method  
adopted in  
England  
for re-  
ducing  
debt.*

The plan which has now been for some time in operation in England for the reduction of the debt, is to devote a certain sum each year for the conversion of perpetual into terminable annuities. Thus since 1877 the annual charge for the interest on the debt has been taken at 28,000,000*l*. From the latest returns it appears that at the close of the financial year 31 March, 1883, the capital of the debt was 709,000,000*l*. If 28,000,000*l*. is each year set aside for payment of interest on, and reduction of debt, it is obvious that the amount available for the reduction of debt will each year increase; and it is estimated that in 1903 173,000,000*l*. of debt will have been cancelled and the debt, supposing no new loans to have been raised in the interval, will be reduced to 536,000,000*l*. It is obvious that if the subject is regarded purely as one of arithmetic, it can make no difference, so far as the ultimate reduction of debt is concerned, whether a surplus is applied to the immediate cancelling of debt or whether it is used in the conversion of perpetual into terminable annuities. There is no doubt one objection that may be urged against the adoption of the latter course. If, during the time that the conversion into terminable annuities is taking place, it becomes necessary to borrow, then the Government is placed in the position of borrowing money with one hand while it is paying off debt with the other; and thus the evils of the old sinking fund are revived. This plan of borrowing to pay off debt constituted the inherent defect of Mr Pitt's well-known sinking fund. At that time the normal condition of the country was one of borrowing, and consequently the only effect of keeping such a fund in operation was to increase the amount of the loans that had annually to be raised. If before the terminable annuities lapse it becomes necessary to borrow, either for a war or for any other purpose, the reduction of the debt is for the time suspended. As however the present financial condition of England is such that the regular recurrence of a surplus may be reasonably anticipated, it no doubt becomes more easy to devote this surplus to the reduction of debt when it is allocated to this object, than if the appropriation of the surplus were an open question year after year.

It is often urged as an objection to the reduction of debt



that the money devoted to this purpose would be more beneficially applied if it were employed in the remission of taxation. It is sometimes said that it ought to be left to "fructify in the pockets of the people." The question of the extent to which a country ought to reduce debt should obviously be determined by circumstances. If the financial condition of a country is such that, in order to provide for the reduction of debt, it is necessary to maintain taxes which seriously impede industry or are exceptionally burdensome to the people, the case for the reduction of debt is much less strong than if no taxes need be imposed which materially interfere with the industrial development of the country. At the present time the financial condition of England is such that it cannot with any reason be urged that an effort should not be made to reduce her national debt. Although we may justly feel every confidence in the continued progress of the country, yet posterity may have to contend with difficulties which we have not to encounter; and at the present time, with the single exception of the duty on tea and coffee, no tax is imposed upon any article which can be considered a necessary of life.

## CHAPTER IV.

### ON THE LAND-TAX.

**WE** propose to discuss the land-tax in a separate chapter, because in some respects this tax differs in its incidence from all others.

The Land-tax possesses a special, practical importance at the present time, for although it yields a very insignificant portion of the revenue of this country, yet a large part of the revenue of our greatest dependency, India, is provided by the taxes which are imposed upon land. The nature and incidence of the land-tax will be clearly understood, by considering the mode in which the dominion of Great Britain was established in India. The British traders who first settled in that country found it governed by a great number of rulers, who owned the soil, and derived their revenue by making their subjects pay a rent or tax for permission to cultivate the land. The dominions of these native rulers were obtained by the English, either by annexation, or by conquest; and, consequently, our Government gradually became possessed of a great portion of the soil of India, and could exercise over it the same rights of property as those which an English landlord exercises over his own estate. The Government in India takes the place of individual landlords, and the cultivators of the soil rent their land from the Government instead of from private landowners. It therefore appears that there is no real, but simply a nominal distinction between a land-tax and rent, for in a previous chapter it was shown that rent is the price which is paid for the use of an appropriated natural monopoly. If land has been appropriated by the Government, then the price paid for the

use of this appropriated natural monopoly is received by the Government, and is termed a land-tax. If, however, the price is paid to a private individual, then it is termed rent.

From these considerations it is evident, that, as far as the cultivators of the soil are concerned, it can be a matter of no consequence whatever to them, whether they pay a land-tax to the Government, or whether they pay rent to private landowners. Hence a land-tax is no burden upon the cultivator, nor does this impost cause any loss to the rest of the community. It therefore follows, that a land-tax, as long as it does not exceed a rack-rent, cannot increase the price of products raised from the land, for those who grow the products would not sell them cheaper if they paid rent to a private landlord, instead of paying the same amount to the Government in the form of a land-tax. A land-tax consequently differs from all other taxes, for it possesses the excellent quality of providing a large revenue for the State without diminishing the wealth of the community. Those, therefore, are completely in error, who quote the aggregate amount of taxation which is raised in India, in order to prove how heavily the people of that country are taxed. At least 20,000,000*l.* per annum is obtained in India by the land-tax; but it would be as unreasonable to consider this amount as a burden laid upon the people, as it would be to consider that the whole rent which is paid to English landlords in this country is an impost levied upon the cultivators of the soil.

It is, however, quite possible that a land-tax may exceed a rack-rent in amount, and the tax would, in this case, increase the price of agricultural produce. Suppose, as an example, that our Government should arbitrarily take possession of all the landed property of this country. The English farmer would then rent his land from the State, and not from private individuals; the position of the cultivator would manifestly be unaffected by this appropriation of property if rents were determined then, as now, by competition. The same rack-rent would, in fact, be paid by the farmers, and the price of agricultural produce need in no way be influenced by such a transfer of property. But let us inquire what would occur if the Government resolved to levy a greater rent, in the form of land-tax,

BOOK IV.  
CH. IV.

*The land-tax does not injure the cultivators of the soil.*

*If the land-tax exceeds a rack-rent in amount it must raise the price of agricultural produce.*

BOOK IV.  
CH. IV.

than the rack-rent which the cultivator previously paid. Let it, for instance, be assumed that the Government levies 500*l.* a year in land-tax from a farmer whose rent had been previously 400*l.* a year. It will be remembered that a rack-rent is the price which is paid for the use of land when rents are determined by competition. Since, therefore, free competition of capital is supposed to exist, the farmer, after paying a rent of 400*l.* a year, will realise on the average of years the ordinary rate of profit upon his labour and capital. The extra 100*l.* a year which it is assumed the Government levies from him, he cannot afford to pay; or, in other words, the payment of this additional sum will prevent him realising the ordinary rate of profit upon his labour and capital, unless he is compensated by a rise in the price of agricultural produce. No class of traders will, however, continue an occupation if it is permanently less profitable than other branches of industry; hence it is impossible for a land-tax to exceed a rack-rent in amount without producing a rise in the price of agricultural produce. It therefore follows that all that portion of a land-tax which exceeds a rack-rent in amount is really contributed by the consumers of agricultural produce, since the price of such produce is increased.

*A land-tax which exceeds a rack-rent tends to throw the soil out of cultivation.*

Other considerations show, that when a land-tax exceeds a rack-rent in amount, a counteracting influence is brought into operation which diminishes the aggregate revenue which the land-tax yields. For it is evident that the importation of agricultural produce will be encouraged, if the price of such produce is artificially raised in the home-market by an excessive land-tax. But if an increased amount of produce is imported, a diminished quantity of produce will be grown in the country itself. Directly, therefore, a land-tax is greater in amount than a rack-rent, unless the increase in the tax is accompanied by restrictions upon importation, a tendency is exerted to throw land out of cultivation. This tendency will continue if the land-tax is increased, and thus the area of land from which the tax can be levied will be gradually restricted.

*The land-tax in England only de-*

The land-tax which exists in our own country forms only a very small part of the rent which is paid to private landlords. Such a tax should properly be considered to denote

that the State has reserved a small pecuniary share in the ownership of the soil. The relative value of the shares which the landowner and the State respectively possess was very different formerly to what it is now. The land-tax in our own country has long since been commuted for a fixed money payment, and the tax has consequently not increased with the enormous advance in the value of landed property. As far as the cultivator is concerned, it makes no difference whether he pays the land-tax or not, because if it is arranged that the tax should be levied from him he manifestly pays so much less rent to the landlord. As before said, such a land-tax as that which exists in England merely denotes the fact, that the State possesses a certain pecuniary interest in the soil; and it is therefore evident that both the profits of the cultivator and the price of agricultural produce must be the same whether the land-tax exists or not; or, in other words, whether the State has, or has not, reserved for itself a certain right of property in the soil. It would therefore have been a fortunate circumstance for the nation if the land-tax in this country were greater in amount than it is at the present time. It would now, however, be an unjust confiscation of property to increase the land-tax; such an augmentation of the tax would be paid entirely from the rent of landowners, and would therefore be as indefensible as any other impost levied upon one special class. But it would have been a boon to the tax-paying community if, when the land-tax was first imposed, its amount had been fixed not at a certain sum of money, but at a certain definite proportion of the value of the land. If this arrangement had been adopted, the amount which the land-tax yields to the revenue would have been constantly augmented in proportion to the increase in the value of the land; the amount of revenue thus raised, though constantly augmenting, would be felt as a burden by no class, because the land-tax is, as it were, spontaneously provided by the appropriation of a natural monopoly; therefore the tax would yield a larger revenue as the value of this monopoly increases.

The tithe which exists in this country is essentially a land-tax, and was originally equivalent in value, as its name implies, to one-tenth part of the produce of the

BOOK IV.  
CH. IV.

*notes that the State retains a small interest in the soil.*

*An augmentation of the land-tax now would injure the land-holders.*

*Tithes are equivalent to a rent-charge.*

BOOK IV.  
CH. IV.

land. The tithe has not been usually termed a land-tax, because it was originally appropriated to religious purposes, and consequently did not form a part of the general revenue of the State. Only a portion of the tithes in this country has since the Reformation served as a religious endowment, for tithes are now often possessed by private individuals like any other kind of property. A tithe is in fact a rent-charge upon landed property, and this rent-charge is frequently not possessed by the owner of the land. As far as the cultivator is concerned, it manifestly can be a matter of no consequence whether such a rent-charge does or does not exist. If the land which he cultivates is tithe-free, the whole amount which he pays for the use of it will be regarded as rent; if, however, the land should be subject to a tithe, the amount which the cultivator pays for the use of the land will be the same as it would be if the land were tithe-free; but the whole of this amount will no longer be considered as rent, for it will be shared between the landowner and the tithe-proprietor.

*The Tithe  
Commuta-  
tion Act.*

The tithe, like the land-tax, would be now very insignificant in amount, if it had been originally commuted at a fixed money payment. Previous to the Tithe Commutation Act, which was passed in 1837, the tithe was assessed as nearly as possible upon the principle of making it equivalent in value to one-tenth of the produce of the land; the tithe consequently increased as the value of landed property increased, for the tithe would manifestly be augmented if the productiveness of land increased, or if the value of agricultural produce advanced. The main object of the Tithe Commutation Act was to facilitate the assessment of the tithe, and the amount which is now annually paid as tithe is determined by the average price of corn during the previous seven years. It is quite possible that tithe-proprietors may be ultimately injured by this commutation. The amount at which the tithe is now assessed being solely determined by the price of corn, it is evident that the tithe-proprietor is not benefited by a rise in the price of stock. In this work the opinion has been frequently expressed that stock is destined to become relatively much dearer than corn, because stock must be always difficult to import, whereas the area from which

*It may be  
ultimately  
injurious  
to tithe-  
proprie-  
tors.*

corn is obtained is rapidly extending. A tithe therefore constantly represents in value a smaller proportion of the whole value of the produce raised from the land, if the amount at which the tithe is assessed is not influenced by the rise in the value of stock, but is solely determined by the price of corn.

A tithe-proprietor under the present commutation derives no benefit from the increased productiveness of land. Improved methods of tillage may double the produce which is raised from a farm, and yet the tithe paid upon it will not be increased, unless there is a rise in the price of corn. It was no doubt with great force urged by the promoters of the tithe commutation, that a tithe-proprietor ought not to share with the landowner the additional produce which results from superior agriculture. It was, for instance, maintained that the land is rendered more productive by the expenditure of capital upon it, and it would be unfair that the tithe-proprietor should be benefited by an outlay of capital which has been entirely contributed by the landowner. It was moreover argued that the admission of this claim on the part of a tithe-proprietor might seriously impede agricultural improvements, since landowners would be reluctant to invest capital if others were to share with them in the advantages of the outlay.

*Tithe-proprietors derive no benefit from increased productiveness of the soil.*

## CHAPTER V.

### THE POOR LAW AND ITS INFLUENCE ON PAUPERISM.

BOOK IV.  
CH. V.

**I**N attempting to describe the influence which the English Poor Law has exercised upon Pauperism, it will be desirable in the first place to give a brief review of the circumstances which have led to the establishment of our existing system of Poor Law relief. In order to make the subject as clear as possible it is necessary to distinguish between the two modes in which relief to the poor is granted. In the first place, relief may assume the form of almsgiving or charity; or secondly, the funds distributed amongst the poor may be administered by the State and be obtained through the ordinary channels of either imperial or local taxation. In this latter case a country is said to have a Poor Law. In England there was not any real Poor Law until the reign of Elizabeth. And until as recently as 1838 the relief of the poor in Ireland was not organised by the State; it was rather left to the uncertain chances of voluntary charity.

*The rise  
of the  
English  
Poor Law.*

The causes which led to the gradual establishment of a Poor Law in England may be readily traced. As long as the relief of the poor was left to individual, and consequently unorganized, efforts it is obvious that many mischievous results would be sure to ensue. Indiscriminate almsgiving always in the end demoralises those whom it is intended to benefit, and intensifies the evil which it seeks to alleviate. Those evidently obtain the largest share of private charity who can excite in others the strongest sympathy for their sufferings. Mendicancy thus becomes a profession in which the greatest success is often secured by the least deserving. Mendicancy and vagrancy grew to such serious proportions in this country, that it



was attempted to regulate them in numerous Acts of Parliament. Throughout the various statutes which were passed for this purpose one leading idea, based on principles which were incontestably sound, can generally be traced. Parliament showed the utmost care to indicate the broad fundamental distinction which exists between voluntary and involuntary poverty; various local authorities were enjoined to treat with sympathy and liberality all whose poverty was involuntary; a severe measure of justice was however meted out to voluntary mendicancy. An able-bodied man who preferred to beg rather than to work excited intense indignation in the legislature of those days. Such a one was in sundry Acts of Parliament of Richard II. and in succeeding reigns termed a "sturdy vagabond" and "a valiant beggar". In one of these statutes it was decreed that if such a one were detected applying for relief when work was to be had, he was for the first offence to be whipped; for the second offence one of his ears was to be cropped; and if he offended a third time he was to be hanged as an enemy to the commonwealth. The purpose of these Acts was defeated by their extreme severity; such penalties were too harsh to be generally inflicted. Mendicancy and vagrancy went on increasing in spite of the efforts of the legislature to check them; the evil at length became so threatening to the well-being of the country that the necessity of adopting a different policy became generally recognised. In consequence of the suppression at the time of the Reformation of the monasteries and religious houses which had been centres of almsgiving and general relief, the attention of the legislature was then particularly directed to the condition of the poor; and in the reign of Henry VIII. two statutes were passed in which may be detected the germs of the celebrated Act of Elizabeth, from which our Poor Law system originated. These Acts of Henry VIII. not only rendered each locality responsible for the support of its own poor, but also attempted the extremely useful work of regulating the giving of alms. The impotent poor were to be sent to the place where they were born, and the local authorities were, under the pain of heavy penalties, enjoined to treat them with kindness and liberality. With regard to the able-bodied or voluntary

BOOK IV.  
CH. V.

*Early efforts to extirpate the professional beggar.*

BOOK IV.  
CH. V.

paupers a very different policy was to be adopted; work was to be provided for them, and if they did not accept it they were severely punished. But the most important provisions in these Acts were those which regulated almsgiving. All who desired to give relief to the poor were ordered to place their contributions in a common fund, which was distributed by the Bishop and clergy. If any one omitted to do this, and dispensed charity privately, he rendered himself liable to a penalty equal to ten times the amount which he had given away.

The intentions of those who framed these Acts were excellent; they evidently desired to create a distinct line of demarcation between voluntary and involuntary pauperism, and they not unreasonably hoped by discouraging indiscriminate almsgiving to diminish mendicancy and vagrancy. But from the severe enactments which were subsequently passed against mendicancy it is evident that the wise intentions of these legislators were to a great extent defeated. The reason of their failure can be readily understood. The distributors of the common fund had no power to impose a rate, and thus obtain from individuals contributions in proportion to their means. This defect in the law probably impressed itself upon Elizabeth and her advisers, and as a natural consequence, a remedy was suggested which was embodied in the celebrated Act passed in the 43rd year of her reign. The main provisions of this Act may be briefly described. It gave for the first time to every one a legal right to claim relief. In order to obtain the fund which the provision of this relief required, local authorities were empowered to impose a rate upon all such real property as land and houses; the able-bodied were by its provisions compelled to work as a condition of obtaining relief; the cost of maintaining able-bodied paupers was thrown upon any of their natural relations who could afford to bear the charge. The Act also provided for the annual appointment in each parish of overseers, who were responsible for the collection of rates, and the administration of relief. There is so little difference in all important principles between these provisions and those which were embodied in the New Poor Law of 1834, that it may at first sight seem difficult to understand why this latter Act was ever required. There probably never would

*The Elizabethan  
Poor Law.*

have been any necessity for passing it had not the Poor Law of Elizabeth been most mischievously tampered with.

It is obvious from the description just given of its leading provisions that one of the chief objects of its framers was to deal vigorously with voluntary pauperism. For 150 years this policy was continued with the happiest results. Mendicancy and vagrancy greatly diminished, and the restrictions imposed upon able-bodied paupers were regarded by them as so onerous that few, except the impotent poor, applied for relief. Between the passing of the Act in 1601 and the time to which we refer several amending statutes were passed; none of these however weakened, some of them materially strengthened, the original purpose of the Act. Thus in 1723, the ninth year of the reign of George I., a parish, or union of parishes, was empowered to build a workhouse, and the offer of residence in it, if not accepted, was a bar against relief. This enabled local authorities to diminish or even altogether to abolish out-door relief. There is reason to believe that if the power thus conferred on local authorities had been more extensively taken advantage of, a vast proportion of the pauperism which has afflicted this country would never have existed. But unfortunately an entirely different policy was soon adopted by Parliament, and sanctioned by public opinion. It seems not improbable that this change of policy is to a great extent to be attributed to the remarkable influence exercised by the Elizabethan Poor Law in diminishing pauperism. Frequent reference is made by writers of the period to the fact that about the middle of the last century there was less pauperism in England than in any other country. It appeared at that time not unlikely that pauperism would in the course of a few years be almost exterminated. Unfortunately however, instead of persevering in a policy which had produced such happy results, the opinion began to prevail that as there was comparatively so little pauperism there would be no danger in administering parochial relief in what was supposed to be a more liberal and kind-hearted spirit. The stringent provisions of the Elizabethan Poor Law were gradually relinquished; out-door relief, instead of being discouraged, was directly fostered by various Acts of Parliament; a lax administration of the law became

BOOK IV.  
CH. V.

*Its efficacy  
in prevent-  
ing volun-  
tary  
pauperism.*

*The work-  
house test.*

*The abandon-  
ment of  
the wise  
provisions  
of the  
Eliza-  
bethan  
Poor Law  
almost  
involved  
England  
in bank-  
ruptcy.*

BOOK IV.  
CH. V.

*Restrictions in out-door relief were given up.*

*Gilbert's Act in 1782 abolished the work-house test.*

*East's Act in 1815 authorised the allowance system and grants in aid of wages.*

*Ruinous consequences of the encouragement thus given to pauperism.*

general, and the result was that pauperism assumed such alarming proportions about the year 1832 as almost to threaten the country with national bankruptcy and permanent ruin.

It is evident that the change of policy just indicated was gradually glided into without the slightest appreciation of the consequences involved. It unfortunately happened that the leniency and liberality in the administration of the Poor Law which, as previously remarked, were introduced about the middle of the last century, were chiefly shown in granting out-door relief on more easy terms to able-bodied paupers. By an Act passed in 1767, the 7th of George III., guardians were appointed to protect the poor against the parsimony of overseers and other parish officers. Fifteen years later, by what is known as Gilbert's Act, most of the valuable safe-guards in the old Poor Law were entirely swept away. The workhouse was no longer to be used as a test of voluntary pauperism, for by this Act the able-bodied were not obliged to enter it; the guardians were ordered to find work for all able-bodied applicants near their own homes, and to make up out of the rates any deficiency in wages. The same fatal policy was continued, and was brought to a climax in 1815 when, by a statute known as East's Act, the workhouse test, imposed by 9th of George I., was now altogether removed. After the passing of this Act, no one, not even an able-bodied labourer, was called upon to enter the workhouse, and justices were empowered to make money grants to people at their own homes.

The extent to which the industrial classes were demoralized by these relaxations of the Poor Law soon became only too evident. The most pernicious influence was exerted, not only upon the poor, but also upon their employers; every agency which could most powerfully promote pauperism had been brought in operation; men were virtually told that no amount of recklessness, self-indulgence, or improvidence would in the slightest degree affect their claim to be maintained at other people's expense. If they married when they had no reasonable chance of being able to maintain a family, they were treated as if they had performed a meritorious act, for the more children they had the greater was the amount of relief they obtained.

All the most evident teachings of common sense were completely set at nought; labour was bribed to remain in localities where it was not wanted; and it was prevented passing to those districts where there was a demand for it. Thus if wages in any parish were below what it was thought would provide a reasonable maintenance, the local authorities were empowered to grant an allowance in aid of wages. These evils were aggravated by various enactments known under the general name of the Laws of Settlement, which were passed with a view of hindering labourers from leaving the localities in which they were born. The allowance system and the Law of Settlement, though acting in very different ways, combined to impede the natural flow of labour. However great a surplus of labour there might be in any locality the employed had no inducement to leave it, as long as their wages were made up to the average amount by grants from the rates. The employer not caring about or understanding ulterior consequences, was apparently interested in keeping a supply of surplus labour about him; it produced a low rate of wages, and he was virtually able to put his hand into the pockets of the neighbouring rate-payers to make up the deficiency to those whom he employed. The Law of Settlement placed such impediments in the way of a labourer passing from one district to another, that to a great extent men were constrained to seek employment only in the place of their birth. Few enactments have ever produced more wide-spread mischief. Adam Smith, in the *Wealth of Nations*, says that probably in his time there was scarcely an artisan of forty-five years of age who had not at one period or another suffered some grievous wrong from the Law of Settlement.

By the joint operation of all the baneful influences just described a most alarming demoralization was produced. The extent to which it affected not only the employed, but also the employers, was brought to light by the searching investigations of the Royal Commission which was appointed in 1832 to inquire into the Poor Laws. Amongst the Commissioners were some leading public men, and all their arrangements seem to have been devised with the object of making their examination of the subject as accurate and scrutinizing as possible. Assistant Commissioners

BOOK IV.  
CH. V.

*The Laws  
of Settlement.*

*The appointment  
of the Poor  
Law Commission in  
1832*

BOOK IV.  
CH. V.

*resulted in  
the passing  
of the New  
Poor Law  
in 1834.*

*Facts dis-  
closed  
during the  
inquiry  
instituted  
by the  
Com-  
mission.*

*The bad  
effects of  
the old  
Poor Law  
are still  
visible in  
some dis-  
tricts.*

were appointed not only personally to visit, and take evidence in different parts of England, but they were sent to foreign countries in order that they might inquire into the various modes of administering relief to the poor. The evils of our Poor Law system were so fully unfolded that the necessity for some radical reform became generally recognised. After having to contend with much opposition from those who supposed themselves to be interested in the abuses of the old system, an Act was passed in 1834 which has continued without much alteration up to the present time. This Act is generally known as the New Poor Law; and before describing its more important provisions it will be useful to recount some facts which were brought to light by the Royal Commission of 1832. All the general objections which have been urged against the relaxation of the checks upon voluntary pauperism were strikingly corroborated by specific facts. In some districts out-door relief was granted to the able-bodied upon so liberal a scale that pauperism became a very remunerative employment. One of the Assistant Commissioners who visited Eastbourne found that paupers who worked were paid at the rate of 16s. a week, whereas the average wages in the district were only 12s. a week. The inferiority of the independent workman's pecuniary position was so notorious that this Commissioner actually heard two women complain that their husbands would not better their lot by becoming paupers. In North Devonshire and in many other parts of England so large an allowance was granted for each additional child that was born, that the more numerous a man's family was, the better his circumstances became, and in this way an artificial stimulus was given to population. The habits of improvidence which were thus fostered produced evils which could not be at once removed. A father cannot be improvident without teaching a lesson of improvidence to his children. Moreover when there is a surplus population the labourer can only secure minimum remuneration for his labour, or in other words he simply receives subsistence wages. It can therefore cause no surprise that in many localities where the abuses of the old Poor Law were most rife we find that the supply of labour is still so much in excess of the demand that agricultural labourers until quite recently

often received not more than 9s. or 10s. a week, and now only obtain 12s. a week. Other influences of a still more demoralizing kind were brought into operation under the old Poor Law to stimulate an increase of population. A woman obtained from the parish a larger allowance for an illegitimate than for a legitimate child. The fathers of illegitimate children were also encouraged in a life of immorality by being free from all pecuniary liability to afford them maintenance. Can it excite surprise that from such a system we should have had handed down to us an inheritance of vice and poverty?

The subject presents equally melancholy aspects from whatever point it is viewed. Pauperism often came to be regarded as a paying profession which was followed by successive generations of the same family. Thus the Commissioners tell us of three generations of the same family simultaneously receiving relief; and the amount they drew from the parish exceeded 100*l.* per annum. As a natural consequence of the parish authorities being enjoined to find work at remunerative wages for all their poor, the feeling soon became general that pauperism was no disgrace, and that the allowance which was obtained from the parish was just as much the rightful property of those who received it, as the wages of ordinary industry. Indolence was thus directly encouraged, and a spirit of lawlessness and discontent resulted. Although 1832 was a year of plenty, when bread and other provisions were cheap, yet at this time many of the rural districts were in a very disturbed state; riots and incendiary fires were of common occurrence, and the Commissioners proved that these outbursts of popular discontent were most frequent in those localities where the Poor Law had been administered with the greatest laxity. The cost of pauperism grew constantly greater; rates so rapidly increased that it became evident they would soon absorb the whole fund from which they were provided. In some districts the rates absorbed more than remained of the produce of the soil, after all the expenses of cultivation had been paid. The Commissioners tell us that many farms were given up, that several of the clergy relinquished their glebes, and that much fertile land was thrown out of tillage. They mention one parish, Cholesbury, Berkshire, in which the whole land was offered to the assembled

BOOK IV.  
CH. V.

*Encouragement given to immorality.*

*Rates threatened to absorb the whole value of the produce of the soil.*

BOOK IV.  
CH. V.

*Farmers  
and others  
compelled  
to hire  
pauper  
labour,*

paupers, but they refused it, saying they would rather continue on the old system. Such a case may appear incredible, could it not be corroborated by much similar evidence. The Commissioners ascertained that a gentleman who cultivated his own estate of about 500 acres, at Shelford, near Cambridge, annually paid in poor rates 250*l.*; the land to rent was worth about 1*l.* per acre; the rates consequently absorbed half the letting value of the farm. But great as was the charge thus imposed, it by no means represented the entire burden of pauperism. At Shelford, as in many other localities, it was the practice to allot the able-bodied paupers to different farmers; each farmer was consequently obliged to employ a number of paupers in proportion to the extent of his holding, whether he required their labour or not. The gentleman to whom reference has just been made, proved that so much of the labour thus imposed upon him was of no use whatever, that it caused him an annual loss of at least 100*l.* a year. The whole annual cost of pauperism on this farm of 500 acres was therefore 350*l.* If rates had gone on increasing for a few years as they were at the time the New Poor Law was introduced, it is evident that this annual charge of 350*l.* would soon have grown into more than 500*l.*; this would have represented a higher rent than the land was able to bear, and consequently there would have been no other alternative but to have thrown it out of cultivation. When it is remembered that this was by no means an exceptional case, but might on the contrary be regarded as typical of the condition of a large part of the country, it at once becomes manifest that England was at that time threatened with ruin.

*were  
frequently  
thereby  
obliged to  
dismiss  
valued  
workmen.*

It has just been seen that a most onerous tax was inflicted upon employers by the plan of allotting to them a certain amount of pauper labour; this was however by no means the greatest evil of the system. Evidence was repeatedly given that farmers and others were so much burdened with this pauper labour, that in order to make room for it they were often obliged to dismiss valued workmen. A farmer near Royston told the Commissioners that he tried hard to retain two excellent workmen who had been long in his employment, but at length he was obliged to dismiss them in consequence of so many pauper labourers



being forced upon him. He also said, referring to the two paupers who took the place of the workmen he so reluctantly dismissed, that one of them turned out to be a dangerous thief, and the other an habitual drunkard. Even when they were not paid high wages, the labour of paupers was most costly; it was reluctantly given; it was unskilled, and they had to be worked in gangs in order that they might be the more effectually watched. Pauper labour had in fact many of the economic defects of slave labour. This painful recital of the ignorance, folly and injustice of the old Poor Law and the demoralization and degradation that resulted, has been by no means exhausted; but enough has been said to enable us to understand the nature of the more prominent abuses which needed to be reformed at the time when the New Poor Law was passed<sup>1</sup>. An explanation of the leading provisions of this Act, and an inquiry into its effects, will enable us to understand in what respects it has failed and in what it has succeeded. Having made this explanation, we shall be in a position to appreciate the reforms which are still required.

We have thought it desirable thus to describe in considerable detail the evils connected with the old Poor Law, because it may at any time happen that a desire to free the New Poor Law from what many still regard as its harsher features may bring into active operation many of the mischievous agencies associated with the old system. We have also thought it desirable to adopt this course, because a knowledge of the state of things which formerly prevailed will place us in a better position to understand the nature of the changes introduced by the New Poor Law. It has already been remarked that there is little difference in any fundamental principle between the Elizabethan Poor Law of 1601 and the New Poor Law of 1834. The gradual relaxation of all the salutary restrictions upon voluntary pauperism contained in the former Act, as well as many grave abuses of administration, rendered new legislation absolutely necessary. By the new Act, the

*The New Poor Law of 1834 bears a strong resemblance to the Elizabethan Poor Law of 1601.*

<sup>1</sup> This short historical sketch of the Poor Law is taken from a course of lectures I delivered at Cambridge some years since, which were published under the title of *Pauperism, its Causes and Remedies*. This book is now out of print. Many of the facts here mentioned and much other valuable information are to be found in an able article on the Poor Law by Mr George Coode in the 8th edition of the *Encyclopædia Britannica*.

BOOK IV.  
CH. V.

workhouse test was again revived, the plan of granting allowances in aid of wages was abolished, the appointment of paid overseers was provided for, and an official audit of accounts was secured. Illegitimacy was to some degree checked by making the father responsible for the support of the child, instead of rewarding the mother, and freeing the father from pecuniary liability, as was the case under the old system. The Laws of Settlement were rendered somewhat less burdensome to the labourer; formerly it was easy to obtain a settlement in a parish either by occupation or by residence; it was now made much more difficult to do so; consequently there was less reason to prevent new comers locating themselves in a parish, and the migration of labour was somewhat less seriously impeded. By far the most important improvement, however, effected by the New Poor Law may be attributed to the more rigorous restrictions imposed upon able-bodied paupers. The allowance system, with its manifold abuses, which was now abolished, had directly encouraged voluntary pauperism. The workhouse test provided a most salutary check, and the greatest possible good would have resulted if it had been made obligatory upon local authorities to apply this test to all able-bodied paupers.

*The Irish and Scotch Poor Laws.*

*Out-door relief is much less restricted in England and Scotland than in Ireland, and there is consequently less pauperism in Ireland in proportion to population.*

The Act of 1834 was followed in 1838 by a Poor Law Act for Ireland, and two or three years later by one for Scotland. The provisions against out-door relief enforced by this Act in Ireland were more severe than those in England, for no out-door relief at all was allowed to the able-bodied. Although the Scotch Poor Law allows no out-door relief to be given to the able-bodied, yet the Scotch Poor Law, both in many of its provisions as well as in its administration, has not imposed the same check upon pauperism as has been enforced in Ireland. The result has been, as will be presently shown, that although from the character of the Irish people and the general circumstances of the country it might be naturally anticipated that there would be more pauperism in Ireland than in England and Scotland, yet the reverse is the case. The Poor Law system has remained in its main features unchanged since the introduction of the New Poor Law in 1834. The only important alteration of principle that has been adopted is that by the Union Chargeability Act, passed in 1865, the

Union and not the Parish is made the area of rating. The principle of increasing the area of rating was still further extended so far as London is concerned by the Metropolitan Poor Act of 1870. By this Act a difference was for the first time made between the areas of chargeability for out-door and in-door poor respectively:—the cost of maintaining the out-door poor being borne by the Union, whereas the cost of maintenance of in-door poor became a metropolitan charge. The Act has had a most important effect in discouraging out-door relief, and the recent remarkable diminution in out-door pauperism in London is probably in a very considerable degree due to its operation. During the years 1875-6, which were characterised by considerable depression of trade, metropolitan pauperism declined from 96,071 to 79,816. The returns published for the first week in June 1882, show that at that time the number of persons in receipt of relief in London was 87,222, of whom 48,904 were in-door, and 38,318 were out-door paupers. This slight increase since 1875 is more than counter-balanced by the great increase of population in London, which between the census of 1871 and that of 1881 amounted to 22 per cent. The excellence of administration varies greatly in the different Unions of London. The Parish of Whitechapel is one of the best. There, on the 1st January 1881, with a population of 71,350 there were only 449 out-door paupers, while the in-door paupers numbered 1497.

One of the causes which has promoted the undue extension of out-door relief is its supposed cheapness when compared with in-door relief. Although we believe that out-door relief, through the encouragement it offers to pauperism, is far more costly than in-door relief, yet it cannot be denied that the immediate cost of maintaining an out-door pauper is often not half as great as it would be if he were compelled to enter a workhouse. The inducement which is thus offered to guardians to prefer out-door to in-door relief will obviously cease to operate if, as is the case in London, the whole charge for out-door pauperism is borne by each Union, whereas the inhabitants of a large district outside the Union have to contribute their quota to the support of the in-door poor. It cannot be doubted that a great effect would be produced in diminishing pau-

BOOK IV.  
CH. V.

*The Metropolitan  
Poor Act  
of 1870.*

*The delusive economy of out-door relief removed by this Act.*

perism through the discouragement of out-door relief if the principle of the Metropolitan Poor Act were extended to the entire country. It might for instance be arranged that whereas the charge for out-door relief should be borne by each Union, the cost of the in-door poor should be borne by the county rate.

The remarkable diminution of pauperism in the Metropolis, to which reference has just been made, is however no doubt in part due to improved administration; because out-door pauperism has greatly declined in many other localities besides London; and, as previously remarked, the system of making the areas of chargeability for in-door and out-door pauperism different has hitherto been only brought into operation in London. It would appear that the extent to which out-door relief is permitted exerts more influence than any other circumstance in determining the amount of pauperism. Thus, as has been already stated, greater restrictions are imposed upon the granting of out-door relief in Ireland than in England. Although the general condition of Ireland would naturally lead to the conclusion that there would be far more pauperism in Ireland than in either England or Scotland, yet exactly the reverse is the case; for taking the average of the last ten years, it will be found that one in every 57 of the population of Ireland is in receipt of parochial relief, while in England and Scotland the figures are respectively one in 33, and one in 36.

Within the last ten years there can be no doubt that the Poor Law has generally been administered in Great Britain in reference to the granting of out-door relief with greater strictness than it was previously, and the result is shown in a very gratifying diminution in pauperism. Although the period between 1850 and 1870 was one of remarkable industrial prosperity, yet throughout the time there was a steady increase in pauperism. About 1873 this tide of prosperity was checked, and during many succeeding years there was very serious depression in agriculture and many other branches of industry. It is possible that the difficulties and losses which had to be encountered during this period induced a general recognition of the importance of a more careful administration of the Poor Law; but whether this be the explanation or not, it cannot

*The pauperism of Ireland, Scotland and England compared.*

*The effect of improved administration of the Poor Law*

be doubted, as previously stated, that during this period out-door relief has been generally given much more sparingly than formerly. We consequently find that, although population has steadily advanced, the number of persons in Great Britain in receipt of relief on the 1st January 1882 was 895,401, as against 1,200,000 on the 1st January 1871, thus showing a decrease of 304,599. During the same period the question of pauperism in Ireland presented an exact contrast to that which it presented in Great Britain; the population of Ireland has diminished, the strictness of administration with regard to out-door relief which formerly characterised the Irish Poor Law has been departed from, and the number of paupers has increased from 74,000 to 112,000.

Considerable discretion is left to the Guardians as to the extent to which out-door relief should be given, and the result is shown in the striking disparity in the amount of pauperism in different localities. Speaking generally there is far more out-door relief in the rural districts of England than in the towns, and the amount of pauperism in the rural districts is generally far in excess of that which prevails in the towns. Taking the latest returns (1st January 1883) it may be mentioned as an illustration of this, that in Linton, a rural union in Cambridgeshire, out of a population of 13,014, there were 144 persons in receipt of in-door relief, and not less than 900 in receipt of out-door relief. Consequently more than one out of every thirteen was a pauper. In Preston with a population of 129,155 there were only 880 in-door paupers and 729 out-door paupers, and consequently only about one out of eighty of the population was on the pauper roll. In the union of Atcham, which includes the town of Shrewsbury, the number of persons in receipt of relief on the 1st January 1883, out of a population of 48,640, was only 602, or about one in eighty of the whole population. Of these 602, as many as 413 were in-door paupers and only 189 were out-door paupers. Of these 189 only 4, two men and two women, were able-bodied adults; the rest were either infirm, children, or lunatics. The reform of the Poor Law administration in this union is almost entirely due to the unwearied labours of the late Sir Baldwyn Leighton. The lessons so well inculcated by him of the necessity of ex-

BOOK IV.  
CH. V.

*in England between 1871 and 1882 and of a relaxation of restrictions on out-door relief in Ireland.*

*The disparity in the amount of pauperism in different unions is almost entirely due to difference in the excellence of administration.*  
Linton.

Preston.

Atcham.

BOOK IV.  
CH. V.

*Pauperism  
in Oxford  
and Cam-  
bridge con-  
trasted.*

*The work-  
ing classes  
suffer more  
than any  
other  
from a lax  
adminis-  
tration of  
the Poor  
Law.*

*A national  
poor rate  
would be  
disastrous.*

treme care in allowing out-door relief, cause this union to be one of the best administered in England<sup>1</sup>. This remarkable difference in the amount of pauperism is no doubt in part to be attributed to the greater poverty of an agricultural population, but an examination of pauperism in places whose population is similarly circumstanced shows with striking distinctness the extent to which pauperism is encouraged by lax administration of out-door relief. Thus it will be difficult to find two towns which are more alike in the general condition of their population than Oxford and Cambridge. Each is the seat of an University, and each is the centre of a large agricultural district. In Oxford with a population of 21,900 there are 323 in-door paupers and 220 out-door paupers; which together represent 2.48 per cent. of the population. In Cambridge with a population of 35,372 there are 203 in-door paupers, and 1556 out-door paupers, which together represent 4.97 per cent. of the population. Cambridge consequently, where out-door relief is freely given, has in proportion to its population just twice as much pauperism as Oxford, where the Poor Law is more carefully administered.

No greater misfortune could happen to the country than if we again relapsed into a lax administration of the Poor Law, and out-door relief were generally freely given. Poverty would be indefinitely increased, and on all sides agencies would be brought into operation to depress the condition of the labourer. The growing burdens involved in increasing pauperism would impose a serious tax on industry, and the improvidence which, as we have seen, was fostered in the days of the old Poor Law would be actively revived, with the inevitable result of an overstocked labour market, and a rapid decline in wages.

Proposals are not unfrequently brought forward which would undoubtedly lead to such results as those which have been just described. Thus it has been sometimes suggested that there should be a national poor rate, and that pauperism, instead of being a local charge, should be either wholly or in part defrayed from the Consolidated Fund. If such an arrangement were carried out, it can-

<sup>1</sup> These statistics of pauperism in the different unions are obtained from a return which is periodically issued by the Local Government Board.

not be doubted that all the guarantees for careful and economical management would be seriously weakened. If local authorities were allowed to draw upon the imperial exchequer there would be a scramble for public money, and pauperism would be so much stimulated that in a short time it would be impossible for the industry of the country to struggle against the burdens which would have to be borne. In the interest of the poor themselves, the administration of the Poor Law cannot be too carefully watched. Economists of high authority, such as Malthus and Dr Chalmers, were so much impressed with the evils resulting from the old Poor Law, that they strongly argued in favour of the entire abolition of the system. They apparently thought that no country could safely incur the responsibility of conferring upon everyone a legal claim to be maintained. In our opinion, however, experience shows that when the Poor Law is properly administered relief may be restricted to those cases where it is really required, and pauperism is far less encouraged than it would be if the poor had no other resource than indiscriminate and unorganised charity.

Amongst the advantages associated with a poor law, much importance is to be attributed to the influence which the existence of a definite protection against starvation exerts in preventing the feeling of desperation and despair amongst the poorest classes; and these feelings being to a considerable extent checked, socialistic schemes and theories have never obtained any very great hold in this country upon the masses of the people. It is a fact of much significance that, in a visit paid to London in the spring of 1883 by Mdlle Louise Michel, the leader of the most extreme section of French socialists, nothing impressed her more favourably in England than our Poor Law system, and after a visit to the Lambeth workhouse she declared that if the French poor possessed similar institutions which would give them a legal protection against extreme destitution, many of the most serious of the evils for which they demanded redress would be removed.

Besides careful administration of the Poor Law, reference has in previous chapters been made to many other agencies, that may be brought into operation to diminish pauperism.

*The abolition of the Poor Law is not advisable either on political or economic grounds.*

*Various agencies which may be brought*

BOOK IV.  
CH. V.

into  
operation  
to diminish  
pauperism.

Thus much stress has been laid upon the influence that has already been exerted by national education. Great importance has also been attributed to improvements in land tenure and to the extended application of the principles of cooperation and co-partnership. It is also of great moment that no opportunity should be lost of bringing within the reach of the people every available facility for the promotion of thrift. It is a gratifying fact that there has been lately a marked decline in intemperance accompanied by a corresponding growth of providence amongst the poor. As illustrative of the spread of saving habits amongst the poor, it may be mentioned that no less than one in ten of the entire population of England and Wales is a depositor in the Post Office Savings Bank. It may be confidently anticipated that with the increase of providence amongst the poor, many new forms of saving will gradually be developed. By an Act passed in 1882<sup>1</sup> it will be possible to devote the smallest sum, even as little as 1*d.* a week, to the purchase of a deferred annuity or to life insurance; and it cannot, we think, be doubted that when the people feel that they have within their reach a perfectly safe means of making provision for the future, it will much less frequently happen that parochial relief is the only resource in old age and for those who are left widows and orphans.

Every circumstance which hinders the employment of women tends to increase pauperism.

Before concluding this chapter it will be desirable to direct attention to the very serious encouragement that is given to pauperism by the many difficulties that are thrown in the way of women being able to earn their own maintenance. If the pauper statistics of any locality are examined it will be found that a large proportion of the able-bodied who are in receipt of parochial relief are women. Thus reference has been made to the great amount of pauperism in Cambridge. Out of the 311 able-bodied adults who are in receipt of out-door relief no less than 230 are women. The difficulties which women have to encounter in earning their own livelihood are often considerably increased by various laws, passed with the mistaken idea of

<sup>1</sup> Government Annuities Act, 1882. This Act will be brought into operation as soon as new annuity and life insurance tables have been prepared by the National Debt Commissioners.



promoting their interests, which either forbid women to be employed in certain kinds of industry or else place such restrictions upon their labour as to considerably reduce their chance of employment. The factory acts, as is well known, limit the hours of labour of women, young persons and children in certain industries. This restriction, so far as it applies to children and to young persons, appears to us perfectly justifiable, because children are not in a position to protect themselves, if the cupidity of parents and employers combines to subject them to the manifold evils of overwork. Interference with the hours of labour of adults cannot however be justified on these grounds, and all attempts to extend the application of the factory acts, so far as they concern adult women, to those employed as assistants in shops or in domestic industries should be most steadfastly resisted. Reduction of hours and due allowance for rest and for meals may we believe be obtained by adults through voluntary means without calling in the aid of the State. Whenever it is proposed to place legal or other restrictions upon the industry of women, it should be remembered that every avenue of employment which is closed directly causes a great number of women to be crowded into those employments which are still left open; and wages, low enough already, are still further depressed. Those who take upon themselves to decide what work is fit or unfit for women are too apt to forget that any industry is better than the wretchedness inevitably associated with a life of dependent pauperism, and that there may be worse evils in a woman's lot than anything connected with honest industry. It has been repeatedly shown that women need not suffer any injury from work which is supposed to be degrading in its influence. No one, for instance, can deny that in many parts of England the women who are employed in agriculture are in a most unsatisfactory condition; their wages are extremely small; they are poorly and unsuitably clothed, and often, driven into the fields by the pressure of poverty, they work when they ought to be attending to their home duties. Many who observe these evils are anxious that Parliament should prohibit the employment of women in agriculture; but if the labour is differently carried on, it is proved that women suffer no evils, but are benefited by working in the fields.

BOOK IV.  
CH. V.

*State interference  
with  
women's  
labour is  
unjust.*

Mr Henley, one of the Assistant Commissioners who, in 1867, inquired into the condition of people employed in agriculture, has given a most interesting account of the rural population of Northumberland. When his description of these Northumberland labourers is compared with the distressing accounts which are given of the peasantry in other parts of England, it is difficult to believe that the Dorsetshire and Northumberland labourers are inhabitants of the same country. The latter earn good wages; they live well but frugally; fuel is cheap; and their houses are clean and commodious. At particular seasons of the year the women of the family work in the fields; but home duties are never neglected. The women being well and suitably clothed, their out-door labour is beneficial to them, for they generally appear in the most robust health. Their close contiguity to Scotland seems to have given these peasants a certain enthusiasm for education. Good schools are abundant, and the children are generally kept at them until they are twelve or thirteen years of age. Facts such as these should make us hesitate before we sanction any measures which would compel women to be even more dependent than they now are upon parochial relief.

## CHAPTER VI.

### LOCAL TAXATION<sup>1</sup>.

IN the last chapter we considered the influence which is exercised on pauperism by the existing method of administering parochial relief. As yet we have only incidentally referred to the various financial questions which are connected with our Poor-law system. It will, therefore, be desirable to devote a separate chapter to the subject of local taxation, and after having done so, we shall as far as possible explain some of the various complicated economic questions which are associated with the incidence of local taxation.

When taxation is spoken of in this country it is too frequently forgotten that there is not only imperial but also local taxation to be considered, and the one subject offers in many respects the most striking contrast to the other. For several years past, although many taxes have been remitted, and the expenditure has been kept extremely high, yet the imperial revenue has been more than sufficient to meet all demands. When, however, we turn to local taxation, we observe an entirely different state of things. Local expenditure, in the United Kingdom, meaning by that phrase the money raised and spent by local authorities, has been constantly increasing, until it has now reached no less a sum than 61,000,000<sup>2</sup>. If the

BOOK IV.  
CH. VI.

*Contrast  
between  
imperial  
and local  
finance.*

<sup>1</sup> Many of the figures and other facts on local taxation contained in this chapter are taken from Mr R. H. I. Palgrave's work on the *Local Taxation of Great Britain*.

<sup>2</sup> Although this is the amount officially returned as the local expenditure of the United Kingdom, it is important to bear in mind that in many towns the gas and water are supplied by the municipality; consequently a portion of the amount levied in the form of local taxation must be regarded as a sum paid for value received.

BOOK IV.  
CH. VI.

*Excess of expenditure over income is a characteristic of local finance.*

*Local revenue of London in 1881.*

*The state of local finance in London is typical of the whole country.*

local expenditure continues to increase during the next twenty-five years in the same ratio as it has increased during the past twenty-five years, it will considerably exceed the imperial expenditure. So far as the finances of the State are concerned, there has been almost invariably during many past years a balance on the right side. With regard, however, to local expenditure, exactly the reverse has taken place. Local authorities, from one end of the country to the other, are habitually spending more than their ordinary income. It not unfrequently happens that the expenditure is so greatly in excess of revenue, and the deficit to be made up is consequently so large, that the amount which has to be borrowed bears no inconsiderable proportion to the entire amount raised by municipal taxation.

The following is a statement of the financial position of London for the latest year (1881) for which the figures are available :

## LOCAL REVENUE OF LONDON IN 1881.

|  | £                 |
|--|-------------------|
| Raised by rates . . . . .                | 5,470,812         |
| „ dues, tolls, fees, and rents . . . . . | 511,695           |
| „ duties . . . . .                       | 428,746           |
| „ Government subvention . . . . .        | 578,283           |
| „ miscellaneous receipts . . . . .       | 1,699,837         |
| „ loans . . . . .                        | 2,260,470         |
|  | <hr/> £10,949,843 |

From these figures it appears that the expenditure so far exceeded the revenue, that the amount raised by loans was about 40 per cent. of that raised from rates. The state of things disclosed by these figures is so serious, that it may be supposed that the metropolis is an exceptional case. Unfortunately, however, this is not so, for the financial position of London is typical of what is going on in other parts of the country. As previously stated, the annual amount of local expenditure in Great Britain and Ireland is 61,000,000*l.*, and the entire amount raised by local taxation is about 40,000,000*l.* This large excess of expenditure over revenue deserves most anxious consideration. It will probably be urged that the ordinary revenue is always adequate to meet the ordinary expenditure, and that the loans which are annually raised, being devoted to carry out works of

permanent improvement, should be regarded not in the light of financial deficits, but as capital embarked in eligible investments. It will also, no doubt, be said that a country which is advancing so rapidly in wealth and population can afford this local expenditure, and that the increase of expenditure is after all of trifling importance compared with the growing prosperity of the country. Pleas similar to these are very generally accepted as constituting valid excuses for the large outlay upon which we have just been commenting. A little inquiry, however, will at once disclose facts which show that such a defence as is generally put forward in favour of the present local expenditure is inadequate and unsatisfactory.

In the first place, it is to be remarked that the circumstances connected with the raising and spending of these loans seem to be involved in the most inextricable confusion. It is, for instance, difficult to ascertain what is the aggregate indebtedness incurred by local authorities, and it is impossible to discover what steps are being taken to repay the loans which are borrowed. Although it is constantly asserted that these loans are devoted to such reproductive works as the carrying out of permanent improvements, yet those who confidently make these assertions have probably seldom taken the trouble to see whether they can be borne out by the published accounts of local authorities. Nothing has been a more fruitful source of financial embarrassment than the appropriation to ordinary revenue of money which is professedly intended to be expended as capital.

An audit of accounts which does not trace the manner in which loans are spent is almost worthless. The accounts of local authorities have rarely been submitted to this ordeal, and until they have been, it will be impossible to know the true position of local finance. But of all the prevalent misconceptions on the subject of local taxation, none is so fruitful of mischievous consequences as one to which allusion has already been made. People are almost forced, by constant reiteration, to believe that the increase in local expenditure is much less serious than it otherwise would be, because the population and wealth of the country are increasing at a much more rapid rate than the expenditure. That this supposition is altogether

BOOK IV.  
CH. VI.

*The difficulties which surround the investigation of the subject.*

*Appropriation of capital to income.*

*The audit of the accounts is rarely searching.*

*Local expenditure is increasing much more rapidly than the national wealth.*

erroneous, is at once shown by considering some of the statistics of local taxation. The figures about to be quoted refer to the local expenditure of Liverpool since 1841.

*Example:  
Liverpool  
in 1841  
and 1882.*

It need scarcely be said that the increase in the production of wealth, which is so marked a characteristic of the present time, began soon after 1841, and that probably no town in the kingdom has prospered more than Liverpool by the unprecedented development of commerce and trade which has taken place during the last quarter of a century. In 1841, in the parish of Liverpool, which forms only a part of the borough of Liverpool, the amount raised by rates was 81,733*l.* This amount has steadily increased, until, in 1882, it was 377,291*l.* In 1841 the local taxation in the parish of Liverpool represented a charge per head of 7*s.* 4*d.* In 1870 this charge had increased to no less a sum than 1*l.* 5*s.* 3*d.*, and in 1882 it amounted to 1*l.* 16*s.* 7*d.*

The rates have not grown in the same proportion; their growth, however, is sufficient to excite serious alarm. In 1841 the rates in this parish were 2*s.* 8½*d.* in the pound; in 1851 they were 3*s.* 4*d.*; in 1860, 3*s.* 9½*d.*; in 1871, 4*s.* 5½*d.*; and in 1882, 5*s.*

The theory that the increase of local expenditure is only proportionate to the increase in wealth and population, is completely disproved by the figures just quoted; for they show that, in one of the wealthiest and most thriving towns in the kingdom, the charge which local taxation imposes upon each inhabitant increased in 40 years 498 per cent., and that the rates imposed upon all the property assessed increased in the same period 95 per cent. It may perhaps be thought that the parish of Liverpool exhibits exceptionally unfavourable results. The reverse, however, is the case, as will be seen from the following remarkable figures, which describe the growth of local taxation and local expenditure in the townships which compose the borough and suburbs of Liverpool. In the hundred of West Derby the rates advanced in the period referred to from 1*s.* 7*d.* in the pound to 6*s.* 1½*d.*; in Everton they were, in 1882, 6*s.* 10*d.* in the pound; and in Kirkdale they were 6*s.* 7½*d.* In order to make this picture of increasing financial burdens complete, it may be

mentioned that the debt of Liverpool has increased in the period referred to more than 478 per cent., namely, from 1,212,192*l.* to 5,795,410*l.* We shall presently have occasion again to refer to these figures, but it is perhaps desirable to dwell for a moment or two on some of the reflections which they suggest.

It may be asked, What will be the consequences if that which has taken place during the last forty years is to be continued during the next forty years? Local taxation will then impose upon each inhabitant a charge of more than 8*l.* per head, and the rates will be not less in the West Derby hundred than 24*s.* in the pound. It will no doubt be said that these are hypothetical conclusions, impossible of realization. But where are we to look for an effective resistance to that increasing expenditure which, as we have seen, has been during the last forty years advancing with sure and steady steps? To look for any effective resistance at the present time, when there is not only increased taxation, but increased borrowing, is about as reasonable as to suppose that a fire can be extinguished by pouring oil on the flames. What does this increase of local indebtedness show? That, great as has been the increase in local burdens, still the revenue has been insufficient to meet the expenditure.

Although in some of the townships which compose the borough of Liverpool, the rates are more than 6*s.* in the pound, yet side-by-side with this onerous taxation an increased liability, or in other words augmented rates, are being stored up for the future. The present system of local expenditure, which leads not only to increased taxation, but also to increased borrowing, is often defended on the ground that no inconsiderable portion of the money which has been expended, has been devoted to permanent works, and therefore the outlay once made will not have to be repeated. But considering that this growth of local expenditure has been continuing unchecked during the last forty years, is it reasonable to suppose that it will be arrested, unless the system of administration and general policy with regard to local expenditure are fundamentally changed? As will be presently more fully shown, the existing system of local government seems especially devised to weaken some of the most effective

BOOK IV.  
CH. VI.

*Confusion  
caused by  
the differ-  
ent areas  
of rating  
not being  
coinci-  
dent;*

*and by the  
number of  
different  
bodies who  
have the  
power to  
levy rates.*

securities for economy, and to destroy the guarantees of administrative efficiency. A few years ago, it was stated by the President of the Local Government Board, that "there is a chaos as regards authorities, a chaos as regards rates, and a worse chaos than all as regards areas of taxation. And not only that, but every different form of collection which it is possible to conceive is employed by the various local authorities administering these various areas." That this description is in no way exaggerated, is abundantly shown by such facts as the following:—In country districts there are usually three areas of rating—petty sessional divisions, highway districts, and Poor-law unions. These, instead of being coincident, often overlap each other so as to produce such inextricable confusion, that the Sanitary Commission, in its report of 1870, declared that the result is "the maximum of embarrassment and waste of local government, and the utmost loss of means and effectiveness." In towns the state of things is worse, if possible, than in the country. It usually happens, for instance, that there are in boroughs three separate rating authorities—viz. the board of guardians, the town council, and the local board of health. To these recent legislation has added a fourth, for the school-boards have the power to levy rates. County magistrates also levy rates for county purposes from a town population. These various authorities levy rates at different times, by different sets of officials, and often by different methods of assessment. In many places it happens that the town council attends to the police, appoints various committees, levies a borough rate, manages the water-works, and levies a water rate. The local board of health manages the roads, levies rates for their maintenance and for all sanitary matters. Sometimes it happens that when the water-works and the gas-works are owned by the municipality, the one is managed by the town council and the other by the local board of health. It will scarcely be believed that the town council and the local board of health are composed of exactly the same persons. They are, in fact, the same body under two different names. It is easy to imagine how innumerable are the complications which are thus unnecessarily created,



when it is remembered that the result of giving this body two different names is that rates are collected by different sets of officials at different times. The borough rate, which is levied by the town council, is in some cases paid out of the poor rate, which is levied under the authority of the board of guardians. Other rates—such, for instance, as the cemetery rate, and a contribution to the county lunatic asylum—are paid out of the poor rate. The board of health levy a general district rate and a lighting rate. The general district rate is levied, like all rates under the Public Health Act, with an exemption of 75 per cent. in favour of market-gardens and railways. These exemptions do not apply either to the borough rate or to the poor rate.

Instead of the system being improved, additional complexity is constantly being accumulated upon it. Nothing has been a more striking characteristic of the legislation of recent years, than the rapidity with which new rates have been called into existence. From time to time various schemes are favoured by the public for effecting reforms in the social condition of the people. Each of these schemes, as it obtains legislative sanction, too frequently leaves its mark on the country in the creation of a new rate. Thus in a comparatively few years Parliament has called into existence the following new rates:—Burial Board Rate, Public Library and Museum Rate, General District Rate, Sewerage Rate, Parish Improvement Rate, Animals Contagious Diseases Rate, Borough Lunatic Asylum Rate, Borough Library and Museum Rate, Borough Baths and Wash-houses Rate, Borough Improvement Rate, and Borough Burial Board Rate.

Allusion has already been made to the fact that since the passing of the Elementary Education Act, in 1870, a considerable portion of the expense of educating the people is thrown upon the rates. It would be out of place here to consider a school rate from an educational point of view, but it is necessary to refer to it so far as it affects the question of local taxation. The present school rate may be almost indefinitely increased if the proposals which are now influentially put forward in favour of general free education should be sanctioned. If free education were conceded it would be impossible to restrict it to the labour-

BOOK IV.  
CH. VI.

*The constantly increasing complexity of the subject.*

*The Education rate.*

*Free education.*

BOOK IV.  
CH. VI.

ing classes, because if the workman earning three pounds a week has the schooling of his children paid for, will it be possible to refuse the same privilege to the small tradesman, to the poor clerk, or to half-pay officers, clergymen, and others who have to keep up a respectable appearance on an income not larger than that earned by many a skilled mechanic? It is, moreover, important to bear in mind that this demand for free education is simply one offshoot of a sentiment which seems destined to exercise a rapidly extending influence. Scarcely any one can fail to be struck with the growing tendency which there now is to support various proposals, all based upon the principle that an individual should be able to look to the general community for such pecuniary assistance as will enable him to gratify many tastes and satisfy many wants. Free education would enable a parent to make others pay for that instruction which has now been declared to be necessary to a child. By State emigration it would be possible for a man to throw upon others the cost of his settling in another country. The boarding-out system, which has lately been engrafted on our Poor Law, may give to those who are willing to desert their children an assurance that they will be carefully tended in healthy country homes, and will enjoy many more comforts than the majority of working men are able to secure for their families.

There is scarcely a single subject of social reform now discussed by the public, with which there is not sure to be associated some proposal that will necessitate an increase either of local or imperial taxation. Special attention has already<sup>1</sup> been directed to various schemes now constantly brought forward, which would involve a large expenditure of public money, and would consequently lead to a great increase in either imperial or local taxation. These proposals are, no doubt, powerfully encouraged by the feeling so widely prevalent, that in a country where wealth is accumulated with such great rapidity as in England, neither harm nor peril can result from an increase in expenditure. It therefore becomes of great importance to say a few words on this particular point. Reverting in the first place to some of the statistics already quoted in reference to Liverpool, it will be seen that even in that

*The constantly increasing demands made upon the rates are encouraged by the opinion that the wealth of England is so great that there is no need for economy.*

*That this opinion is unfounded is proved by the*

<sup>1</sup> See Chap. XI. Book II. p. 279.

town, which has certainly been one of the most prosperous in the kingdom, local expenditure has far more than kept pace with the remarkable growth both of her wealth and population. Not only has each inhabitant to contribute a much larger sum than formerly, but property has to bear a much heavier aggregate rate. It will no doubt be urged that, as the town has become much wealthier, the contribution of 1*l.* 16*s.* 7*d.*, which is now levied from each inhabitant, does not represent so great a sacrifice as the contribution of 7*s.* paid in 1841. It is not, however, difficult to show that such an argument is erroneous, and is calculated to produce very mischievous consequences. In order to prove this, it is only necessary to remember that, even in the most prosperous towns, there are sure to be found thousands whose condition is one of extreme poverty. The vast accumulation of wealth, which is so striking a characteristic of the present time, does not, unfortunately, prevent a great number from living in squalor and destitution. There are so many thousands just on the verge of pauperism, that nothing can be more erroneous than to assume that there is a marked difference in the pecuniary resources of some of those who are, and some of those who are not, in the receipt of parochial relief. The addition which is sure to be made to the number of paupers by any adverse circumstance, such as a depression in trade or scarcity of food, affords indisputable evidence that the struggle which thousands are carrying on to resist the necessity of claiming relief from the parish is so close and so severe, that the issue of the contest may be determined by some circumstance, the influence of which may at first appear to be but trifling. The balance between dependence and independence is so nicely adjusted, that the weight of a hair is sufficient to turn the scale. It will, in fact, be scarcely disputed by any who are practically acquainted with the present condition of our poor, that each addition made to the rates weakens the force of resistance of those who are carrying on the struggle to which we have just referred; and consequently each increase in rates must exert a tendency to increase pauperism. This, therefore, suggests one of the most serious considerations connected with the growth of local expenditure, for it shows that unless some agencies can be brought into operation to exercise an economising in-

BOOK IV.  
CH. VI.

*example of  
Liverpool.*

*As rates  
increase,  
pauperism  
increases.*

BOOK IV.  
CH. VI.

*Reasons  
why the  
Consoli-  
dated  
Fund can-  
not be re-  
lied upon  
for the re-  
lief of  
local bur-  
dens.*

fluence, a large expenditure at the present time will create a necessity for a still larger expenditure in the future. Many agencies may, no doubt, be brought into operation not only to diminish the present local expenditure, but also to prevent its increase in the future. Reference has already been made to the importance of consolidating the various rates, and introducing more concentration into local administration. The necessity has also been insisted upon of most carefully guarding against the tendency which there now is to make new demands upon local funds. Before proceeding further, however, it is desirable to say a few words upon various proposals which are now receiving much support, the effect of which would be, not to promote greater economy, but to produce greater extravagance in local expenditure.

From time to time it is proposed to transfer various charges from local to imperial funds. There are many, for instance, who advocate a national poor rate, and the House of Commons in 1872 affirmed by a large majority that a considerable portion of the cost of maintaining lunatics and the police should be borne by the Consolidated Fund, and the amount now (1883) voted out of imperial funds for this purpose is not less than 3,793,500*l.* a year. Such proposals as these obviously suggest two distinct sets of considerations—viz., those which are political and those which are financial. It would, of course, be inappropriate to discuss the subject here in its political aspect. Upon this branch of the question it need simply be remarked that a transfer of charges from local to imperial funds would inevitably weaken the principle of local self-government. The money which is provided by the State ought, of course, to be administered by the State, and not by local authorities. The principle of local self-government has done so much to diffuse amongst the people a spirit of self-reliance, that it behoves us to resist with the utmost firmness the introduction of any centralising tendency. It is, however, not difficult to show from purely financial considerations the grave peril which would be incurred if sanction were given to demands that are now constantly being made, to transfer various charges from local rates to the Consolidated Fund. No device that can be imagined would more effectually weaken all the guarantees for economy. Each locality is interested in economy

when it is known that the district will have to bear the burden of any outlay which may be incurred. But when public money is to be spent there is a regular scramble for it, and each town and each district thinks that it is directly benefited by getting the largest share possible of this money. There is the broadest distinction between economy in the abstract and economy in the concrete. A candidate seeking the suffrages of a constituency may be applauded to the echo by pledging himself in favour of rigid frugality in the expenditure of public money; and at the same time it is only too notorious that this enthusiasm would not be forfeited, but would on the contrary be greatly increased, if he should afterwards exert himself to obtain for this same constituency a grant of public money to be squandered in some perfectly useless local undertaking. Experience more and more confirms the opinion that the great bulk of the people think that money can be taken out of the Consolidated Fund just in the same way as water is drawn from a perennial fountain; the stream, it seems to be supposed, ceaselessly flows, and no labour nor sacrifice is required to replenish it. When, however, it is remembered that the Consolidated Fund, far from being this fountain of wealth, never obtains a shilling which is not taken out of the taxpayer's pocket, it at once becomes evident that the transfer to this fund of local charges would, by leading to greater expenditure, not lessen the aggregate burden of taxation.

As a striking instance of the inconsiderateness of many of the opinions which are propounded in reference to taxation, it may be mentioned that those who urgently demand the transfer of local charges to the Consolidated Fund, simultaneously display an equal eagerness for a 'free breakfast-table,' and for the unconditional repeal of the income-tax. It might be thought that a moment's reflection would suffice to show that if 2,000,000*l.* of local charges were transferred to the Consolidated Fund, this fund would have to be increased. The money will not be rained down from heaven. There is one way only by which it can be obtained, and that is by increased taxation. But if taxation is to be increased, direct taxes, such as the income-tax, must be augmented, or indirect taxes, such as taxes on commodities, must be made to yield more to the State revenue.

## CHAPTER VII.

### THE INCIDENCE OF LOCAL TAXATION.

**W**ITH a few exceptions, all local taxation is confined to levying rates on land, houses, and business premises. The exceptions to which we refer are certain tolls and dues, and in a few instances, certain commodities, such as in London, corn, coal and wine, are subjected to a small local tax. It often happens, however, that the toll or due is simply the price charged for a distinct service rendered, and therefore can hardly be regarded as taxation. Thus a market toll is paid for the accommodation which a market provides; a harbour due is in a similar way paid for the accommodation obtained by shipping. These tolls and dues, when so adjusted as to return not more than a fair compensation for the outlay incurred in the erection of the market or in the construction of the harbour, may be properly looked upon as rent paid to a corporate proprietor. In such a case it would be as unfair to consider these charges to be taxes, as it would be to consider as taxation the whole of the price paid for a telegram or for the postage of a letter. With the exception of the duties in London above referred to, and a small tax on coal in Brighton and a few other towns, there is scarcely any instance in this country of commodities being subjected to local taxation. The only other source of income besides rates from which local revenue is derived consists of a certain amount of landed and house property held by corporations. It is extremely difficult to ascertain the exact amount of this property, and many questions connected with its management and its appropriation require very careful investigation. In

reference to the local taxation of London it appears that in a single year, 1868, an item was put down of 580,000*l.* as rents and sales of property. It is certainly somewhat remarkable, that the money derived from the rent of property and the sale of property should be thus lumped together in one sum. Few questions bearing upon the future financial position of London can possess greater practical interest than to determine at what rate its corporate property is being sold and devoted to ordinary income. Unless some reasons can be alleged which do not readily suggest themselves, it seems very difficult to justify these sales of property, when it is remembered how rapidly property is advancing in value in London.

Not only has it been shown that local taxation consists almost entirely of rates levied upon real property, but it is essential to remember that under the present system these rates only can be resorted to if it is necessary to obtain an increase of revenue from local taxation. Thus, as the expenditure of London increases, the local authorities have the power to provide for it by increasing the rates; they could not, however, without a special Act of Parliament, increase the duty on coal or impose any fresh taxation on commodities. This at once suggests a fundamental and most important distinction between imperial and local finance. If the national expenditure increases, the additional revenue which may be required can be obtained in many different ways. Any existing taxes or duties can be increased, or new taxes can be imposed. The additional revenue, however, required to meet an augmentation in local expenditure is obtained by the imposition of higher rates upon land, houses, and buildings. The remark has already been made that each tax has its own peculiar inequality, and with it there is sure to be associated some special disadvantage or injustice. Thus it is impossible to prevent a great deal of fraud in connexion with the income-tax. Many incomes, of which the exact amount cannot be ascertained, often pay much less than they ought, and consequently an additional burden is thrown upon incomes which can be accurately known, such as those derived from the funds and from salaries. It is probable that if no deception were practised in connexion with the

*Local taxation consists almost entirely of rates on real property.*

BOOK IV.  
CH. VII.

income-tax, a tax of 5*d.* in the pound would produce as much as is now yielded by a tax of 6*d.* in the pound. The chief inequality belonging to taxes on commodities is to be attributed to a very different cause. Thus it has been shown that such a duty as that on tea cannot be made *ad valorem*. Consequently the cheaper qualities of tea have to bear three or four times as heavy a tax as is imposed upon the expensive teas consumed by the rich. It is therefore evident that, if either the income-tax or the tea duty be alone increased when additional revenue is needed, those will be placed in an exceptionally unfair and unfavourable position who are most affected by the particular inequality which, as we have shown, belongs to each of these methods of obtaining revenue.

When the incidence of local rates is investigated, it will be readily perceived that what has been said in reference to some special inequality clinging to each tax is certainly true with regard to local taxation. From facts to be presently adduced it will be shown that local rates fall with the greatest severity upon the occupiers of houses. Hence as all increase of local expenditure has to be provided out of rates, each addition to the rates must necessarily accumulate inequality upon the occupiers of houses. No redress can be given to them, as may be the case with imperial taxation, by occasionally shifting the main pressure of the extra burden to some other class.

Before proceeding to trace the incidence of local taxation, it is important to show in what proportion the aggregate amount raised by rates is contributed by different classes and different kinds of property. An impression no doubt very generally prevails that by far the largest portion of the amount raised in this country by local taxation is taken from the land. The following facts will, however, clearly prove that by far the largest portion of the amount now raised by local taxation is levied not on the owners or cultivators of land, but on the occupiers of houses. It will, moreover, be shown that the great increase in local expenditure which has taken place for some years past has caused an addition to the burdens on land, which can be regarded as of only trifling importance when compared with the augmentation in

*The incidence of local taxation is mainly upon the occupiers of houses.*



rates paid by the occupiers of houses. The striking figures which are about to be quoted are contained in Mr R. H. I. Palgrave's work on 'Local Taxation'. In 1814, of the whole amount of property assessed to rates, 69·28 per cent. consisted of land, 27·84 per cent. of houses, and 2·88 per cent. of other property. It is impossible to obtain accurate returns for the period between 1814 and 1842, but in 1843 and 1868 the percentages respectively were—

|                          | 1843. | 1868. |
|--------------------------|-------|-------|
| Land . . . . .           | 49·10 | 33·20 |
| Houses . . . . .         | 41·44 | 47·27 |
| Railways . . . . .       | 2·82  | 11·11 |
| Other property . . . . . | 6·64  | 8·42  |

These figures prove with striking distinctness that land, in comparison with other kinds of real property, is contributing a continually diminishing amount to local taxation. Such a conclusion, though at variance with what is currently believed on the subject, admits of a very obvious explanation. Although there was up to the period to which reference has been made, 1868, a constant increase in the value of land, yet, in consequence of its quantity being limited, the addition made to its aggregate value is small when compared with the increase in the value of houses and buildings, the number of which can be indefinitely multiplied. Accordingly, it is found that, estimating the value of land by the amount at which it is assessed, the increase in its value between 1814 and 1843 was 14 per cent.; between 1814 and 1868 it was 28 per cent. Houses increased in value during the same periods no less than 138 per cent. and 356 per cent.; and the increase in the value of other kinds of property was respectively 428 and 1727 per cent.

Mr Purdy, who for many years has been officially connected with the Poor-Law Board, and who has gained a high reputation as a statistician, has stated, after a very careful investigation, that, in consequence of the great increase in the aggregate amount at which houses and other kinds of property are assessed, "in 1864-65, as against 1851-52, 10·3 per cent. has passed from the land, and gone upon other assessable property." It therefore appears that a constantly increasing proportion of local

*Land, in comparison with other kinds of property, contributes a constantly diminishing amount to local taxation.*

expenditure has to be borne by the occupiers of houses, and not by the owners of land.

It will be necessary to bear this conclusion very carefully in mind when inquiring whether the demands of those can be justly conceded who assert that the land is unfairly burdened with local taxation, and that relief ought to be given out of the Consolidated Fund to the owners of land. When it is so frequently stated that the owners and cultivators of land are subjected to peculiar hardship from the present system of local taxation, it is apparently forgotten that rates are generally much lower in the rural than in the urban districts. Again referring to Mr Palgrave's work on Local Taxation, it may be mentioned that he gives the average rates for Wiltshire as 3s. 10½d.; in Salisbury, 7s. 10d.; Cheshire, 2s. 9¾d.; Chester, 5s. 2¾d.; Devon, 3s. 2¾d.; Plymouth, 6s. 10d.; Norfolk, 3s. 1d.; Norwich, 7s. 1d.; King's Lynn, 7s. 2½d.; Leicestershire, 2s. 7½d.; and Leicester, 4s. 4¾d.<sup>1</sup> Such facts as these add one more argument to the many that can be advanced in support of the conclusion, that the burdens of local taxation press with greater severity upon the occupiers of houses and business premises than upon the landed interest. It is now, however, necessary for us to proceed to consider by whom the rates which are levied upon various kinds of property are really paid.

It seems to be a fundamental principle of our system of rating that rates are to be levied on the occupiers and not on the owners of property. Thus in the case of cultivated land, rates are paid by the tenant-farmer and not by the landowner. In the case of houses and business premises, rates are levied on the occupier, and not on the owner either of the building or of the ground on which it stands. It cannot, however, be too carefully borne in mind that, although rates are thus always paid by the occupier, yet there is a fundamental distinction

<sup>1</sup> The higher rates prevailing in towns are no doubt partly due to the circumstances referred to in the last chapter, that rates in towns frequently include payments for water, lighting, paving, draining, etc. But after making full allowance for this, it cannot be doubted that local taxation is almost invariably much higher in the towns than in the rural districts.

*Funda-  
mental dis-  
tinction be-  
tween the  
incidence  
of rates  
imposed on  
land and  
those im-  
posed on  
buildings.*

between the incidence of rates when imposed upon land, and when imposed upon houses and buildings. It will not be difficult to show that rates, though levied on the occupier of land, are really paid by the landowner, whereas the occupier of a house or building is not, to the same extent, able to shift the burden from himself to the owner. As the distinction just pointed out is of the utmost importance, it will be desirable to explain it with as much care as possible. Let us therefore, in the first instance, inquire upon whom the burden of rates really falls in the case of cultivated land. Probably the best way to consider the subject will be by the following example. Let it be assumed that a tenant-farmer pays a rent of 1000*l.* a year, and that in addition to this rent he also has to pay rates to the amount of 200*l.* a year. Suppose an Act were passed to abolish all rates by transferring all local charges to the Consolidated Fund. If the farmer were a yearly tenant, the landowner would naturally say to him, 'You are now released from all rates, and the 200*l.* a year which you are thus saved you can afford to pay me as additional rent.' If the tenant objected to pay this additional rent, the landowner would have no difficulty in obtaining it from someone else. Nothing would have occurred to affect either the price of agricultural produce or the cost of cultivating land, and the farm let at 1,200*l.* a year would be just as cheap, or would yield just as large a profit, as when the tenant had to pay 1000*l.* a year as rent, and 200*l.* a year in rates. If the farmer, instead of being a yearly tenant, held the land upon lease, it is evident that although the landowner would not be able so immediately to appropriate to himself the saving resulting from the land being relieved from rates, yet he would be able to do so at the expiration of the lease. It is therefore evident that if rates were altogether remitted, the advantage would be sooner or later appropriated not by the cultivator but by the owner of land. From similar reasoning it can at once be shown that, if rates are reduced, the rent of land will be ultimately increased by an amount exactly equivalent to the reduction in rates. If, however, there is a lease, the rent cannot be raised until the expiration of the lease, and consequently, during this time, the tenant is able to appropriate to himself the

## BOOK IV.

## CH. VII.

*The incidence of rates levied on land is on the owner, not on the occupier.*

advantage resulting from the reduction. Tenant-farmers, therefore, are entirely misled, if they suppose that they are interested in the amount of rates which is paid to the same extent as the landowners. If rents were regulated entirely by competition, and not at all by custom, an increase in rates would be no loss, and a reduction of rates would be no gain, to those farmers who are yearly tenants. In the case of farms held on lease, the extra burden resulting from an increase of rates is borne by the farmer, and the saving resulting from the reduction of rates is also appropriated by him during the period his lease may have to run. In order still more clearly to show that rates are really paid not by the occupier of the land but by its owner, it will perhaps be desirable to consider the question from a somewhat different point of view. It is a well-known principle of economic science that at any particular time there is a certain rate of profit appropriate to industry. This is termed the natural rate of profit, and it may be regarded as indicating a position of stable equilibrium. If the profits exceed this rate, then the industry becomes exceptionally remunerative. There arises an active competition to participate in these extra profits, and profits are reduced by the force of competition. In a similar way capital will not continue to be embarked in an industry which is exceptionally unremunerative, and thus a force is brought into operation to raise profits if they are reduced below their natural rate. Assuming that farmers could appropriate to themselves the benefit resulting from a decrease of rates, farming would become an exceptionally profitable industry. Farms would be so actively competed for that the rise which would take place in rents would at length be equivalent to what had been saved in rates, and consequently the farmer would ultimately be no better off than he was before. When it was proposed to abolish the Corn Laws the farmers were the staunchest advocates of protection. They were deluded into the belief that they, as a class, were specially interested in the maintenance of high prices. They seemed incapable of recognising the very obvious fact that their rents were adjusted according to the price of agricultural produce. High prices simply meant high rents. Untaught by experience, they are apparently

about to commit the same error, for they seem to think that if rates are reduced they will be able to appropriate the advantage to themselves. As, however, sufficient has probably been said to establish the proposition that a rate is a charge upon land, and is not a tax on the cultivator, we will now proceed to consider who really pay the rates which are levied upon houses and business premises.

It is evident that in the case of a house there are three distinct persons to be considered. In the first place there is the owner of the ground on which the house stands; secondly, there is the owner of the house itself; thirdly, there is the occupier or tenant of the house. It may in the first instance be assumed that the occupier has not a lease, but is simply a yearly tenant. It generally happens that the aggregate rent which is paid by the occupier consists of two portions. He pays a ground-rent to the owner of the land, and he pays a rent to the owner of the house. The amount of the latter sum must be sufficient to give a proper remuneration, or, in other words, to yield a fair profit for the outlay incurred in building the house. This being the case, it is obvious that the amount of rent thus paid cannot be affected by the amount of rates levied upon the house. Capital would not be invested in building unless the return was sufficient to yield the ordinary rate of interest. It therefore follows that rates must be borne either by the occupier of a house or by the owner of the land upon which it is built. In order to ascertain whether the burden of rates really falls upon the owner of the ground or upon the occupier, let us suppose that house property is relieved from the payment of rates. We have then to determine whether the saving which would result would be appropriated by the owners of ground-rents or by the occupiers of houses. In deciding this question it must be borne in mind that the area of land on which houses can be built is not limited in quantity. If, for instance, it is assumed that there is a house, the rent of which is 60*l.*, the ground-rent 10*l.*, and the rates 20*l.*, we have to consider whether the 20*l.*, saved by the remission of rates, could or could not be appropriated by the owner of the ground-rent. If it were possible for him to appropriate this amount to himself, it is at once obvious that

*The incidence of rates levied on houses, when the area of building land is practically unlimited, is upon the occupier.*

his ground-rent would be advanced from 10*l.* to 30*l.* We now, however, have to inquire what is the determining cause which fixed the ground-rent at 10*l.* previous to the remission of rates. It is manifest that to this question there can only be one answer. The ground-rent is simply the price paid for the use of a plot of ground, and this price is regulated by demand and supply. The mere remission of rates can exercise no direct influence either upon the demand for, or upon the supply of, building ground, and consequently no change can take place in its price. It therefore follows that ground-rents will remain the same as they were before, and the saving resulting from the remission of rates cannot be appropriated by the owner of the ground-rent, but will represent so much gained by the occupier of the house. It will be observed that in establishing this proposition it has been stated that the remission of rates can exert no direct influence upon the price of building ground. The expression 'direct influence' has been employed because it may no doubt happen that a slight indirect effect may be exerted upon the price of building ground by the remission of rates. The gain which will accrue to house occupiers from such a remission will enable them of course, if they please, to live in a somewhat better house. Thus a man who saves 20*l.* a year from having to pay no rates may be induced to take a better house. Again, it no doubt happens that a man often delays commencing housekeeping until he thinks he is able to afford to take a house suitable to his position. The remission of rates, by lessening the cost of housekeeping, would increase the demand for houses. It therefore follows that the remission of rates, by inducing some people to live in better houses, and by inducing others to commence housekeeping, would exercise some influence on the demand for building ground. The price of this building ground would somewhat advance, and a small portion of the benefit resulting either from a remission or reduction of rates would fall to the share of the owners of ground-rents and of building ground. Making, however, full allowance for this, we still arrive at the conclusion that by far the greater part of the advantage would, in ordinary cases, be undoubtedly appropriated by house occupiers. We say 'in ordinary cases,' because it

is necessary to point out that in certain exceptional instances the reverse of what has just been stated takes place, and the greater proportion of the rates is paid, not by the occupier of the house, but by the owner of the ground. The reader will probably perceive that throughout the above investigation it has been assumed that the area of building ground is not limited in quantity. It is, however, obvious that this assumption is only true in certain cases and with certain qualifications. It is, for instance, perfectly well known that some houses possess a monopoly of advantages so far as situation is concerned. Sometimes the advantage consists in beauty of prospect. A small area of ground may command a beautiful view, and there is no power whatever of increasing the number of houses built upon it. In other cases the advantage arises from convenience of situation for business purposes. Customers, for instance, are more likely to be attracted to those shops which happen to be situated in the leading thoroughfares of our large towns. The competition for business premises possessing these exceptional advantages of situation is so great that the rent is only in a slight degree determined by the value of the building itself. Thus business premises at Charing Cross or in Lombard Street which may only cost 10,000*l.* to erect may not improbably let for 3000*l.* a year. A profit of ten per cent. may be regarded as more than an ample return upon money invested in building. Consequently, in such a case as that just described, where the annual rent is 3000*l.*, certainly not more than 1000*l.* of this amount can fairly be regarded as the rent of the building; the remaining 2000*l.* is the annual price or rent paid for the use of the ground on which the building stands. Assuming that the rates on this building are 5*s.* in the pound, or, in other words, 750*l.* a year, we have to determine whether these rates are borne by the owner of the building or by the occupier. In order as far as possible to simplify the investigation, we will in the first instance suppose that the owner of the ground is also the owner of the building, and it will then be only necessary to determine whether, if rates were altogether remitted, the gain would be secured by the owner of the building or by its occupier. It is at once obvious that the rent which the occupier pays is not

*Investigation of the incidence of rates on houses and business premises, where the land, on which they are built, possesses exceptional advantages.*

regulated by the cost of erecting the building. The cause which here determines value or rent is not, as in ordinary cases, cost of production, but the demand which exists at any particular time for an article the supply of which cannot be increased beyond definitely assigned limits. The rent of an ordinary house is ultimately determined by the cost of production, just in the same way as the price of ordinary commodities is regulated by the outlay involved in producing them. If, however, there is some article, the supply of which cannot be increased, such, for instance, as a vase designed by a distinguished artist no longer living, it is evident that its price is not influenced by the original cost of producing it, but is solely controlled by the demand of those who may wish to purchase the vase. The demand which may be regarded as proving effectual in this case, or, in other words, the demand which ultimately fixes the price, is to be measured by the amount offered for the vase by the purchaser willing to pay for it the highest price. If we inquire why there is this demand for the vase, or why a person is willing to pay this highest price, we can only say that the desire may be prompted by pleasure, or by a prospect of ultimate profit. Analogous considerations will show that the price or rent paid for a house possessing exceptional advantages of situation is only in a small degree influenced by the cost of building the house, but is determined by the highest price which anyone is willing to pay who wishes to occupy the house, either for purposes of pleasure, or in order to secure the extra trade profits which will result from the occupation of premises in a peculiarly favourable situation. It is evident that this demand, whether prompted by pleasure or by an anticipation of gain, is not influenced by the amount of rates which may be levied on the premises. Thus, assume that there are two sets of business premises, one in the Euston Road, and the other at Charing Cross, which, so far as regards the size and general character of the buildings, are identical. It is by no means unreasonable to suppose that if the premises in the Euston Road let for 500*l.* a year, those at Charing Cross would let for 2,000*l.* If these should be the two rents respectively paid, the difference, 1500*l.* a year, would represent the pecuniary value possessed



by premises of this character when situated at Charing Cross, compared with the Euston Road. In saying that the rents are 2000*l.* and 500*l.* respectively, it is assumed that these rents include the amount paid in rates. Suppose that there is a uniform consolidated rate in the metropolis of 5*s.* in the pound; the aggregate rent of 2000*l.* which is paid for the building at Charing Cross, will consist of 1600*l.* paid as rent to the landlord, and 400*l.* paid as rates. The 500*l.* of rent for the building in Euston Road is composed of rent to landlord, 400*l.*, and rates, 100*l.* Let us now inquire what would take place if rates were altogether remitted. What is true in the case of the entire remission of rates would, *pro tanto*, hold good in the case of reduction of rates. As the two buildings which we are now considering are in every respect of the same size and character, it is manifest that the cost of erecting each must have been the same. Let it be assumed that this cost was 4000*l.*, upon which there is a return of 8 per cent. The Euston Road premises which let for 400*l.* a year may consequently be regarded as yielding an ordinary rent of 320*l.* a year and a ground-rent of 80*l.* The premises at Charing Cross, in consequence of their erection costing the same as those in the Euston Road, yield the same ordinary rent, viz. 320*l.*, and the ground-rent will consequently be 1280*l.* The remission of rates would not in any way affect the pecuniary value for business purposes possessed by the house at Charing Cross. The demand for this house would be the same as it was before the rates were remitted; consequently its owner would be able to secure the same rent for it, viz. 2000*l.* This rent of 2000*l.* previously consisted of three distinct elements; viz. 400*l.* rates, 1280*l.* ground-rent, and 320*l.* ordinary rent, or, in other words, the return for the money spent in building the house. The amount of this return is solely regulated by the ordinary rate of profit upon money invested in building, and is not, therefore, in any way affected by the remission of rates. Hence, when no rates are paid, the aggregate rent is still 2000*l.* a year, and as the ordinary rent still remains at 320*l.* a year, it therefore follows that the ground-rent will be increased by 400*l.*, viz. from 1280*l.* to 1680*l.* From these considerations it appears to be proved that in the case of

BOOK IV.  
CH. VII.

*Are rates  
on trade  
premises a  
burden on  
profits or  
on the con-  
sumer?*

buildings possessing exceptional advantages of situation, rates are not a charge on the owner or occupier of the house, but upon the owner of the ground, because it has just been shown that if rates were remitted, the saving resulting would simply represent so much added to the ground-rent. When business premises do not possess any exceptional advantages of situation, it is evident, from considerations similar to those adduced in the case of ordinary dwelling-houses, that rates are a charge upon the occupier or tenant. It still, however, remains for us to determine whether the tradesman who pays rates upon his shop, and the merchant or manufacturer who pays rates upon a warehouse or manufactory, is able to shift the burden of these rates upon the purchasers and the consumers of commodities. Putting this question in another form, we have to ascertain whether rates are to be regarded as a deduction from trade-profits, or whether they are a tax imposed upon the consumers of merchandise. It will be easy to show that the answer which must be given to this inquiry will be different under different circumstances.

In the first place, let it be assumed that the rates imposed in different localities are the same, and that the home trader has to encounter no foreign competition. Under such circumstances there can be little doubt that rates would be really paid by the consumer and not by the trader. If this were not so, any increase in rates would represent so much taken away from the profits of trade. But if trade profits were thus diminished, they would sink below their natural level, and the force of competition would at once be brought into operation to restore them to their former position; for it is obvious that capital would not continue to be invested in business if it could be more advantageously employed in other undertakings. We have next to inquire what would take place when rates are higher in some localities than in others. Those who carry on business in localities where rates are exceptionally high would be unable to shift the burden of the extra rates upon the consumer, because the competition of those localities where rates are comparatively low, would prevent the price of the commodity being raised sufficiently to compensate those

traders upon whom the exceptionally high rates are imposed. It is therefore evident that the trade of a district may be seriously imperilled if it has to bear rates much in excess of those which are levied in other localities. A merchant or manufacturer may be unable to continue his business, or may be induced to withdraw his capital to other localities, if he has to bear the burden cast upon him by excessive rates. Summarising the conclusions at which we have just arrived, it may be generally stated that rates, so far as they represent a uniform charge upon business premises, are a tax imposed upon consumers. In those cases where rates are exceptionally high, the excess above the ordinary amount constitutes a special tax imposed upon the traders of the locality.

In order to complete the investigation, we have next to inquire whether the conclusions at which we have just arrived have in any way to be modified, when the competition of foreign traders is taken into account. It has been shown that, as rates are ordinarily a charge upon the consumer, an increase of rates will raise the price of commodities. Such a rise in price, however, will at once stimulate foreign competition. The foreign producer, anxious to avail himself of these high prices, will send us a greater quantity of goods. This augmentation in the foreign supply must exert an influence in reducing prices. It will consequently follow that the home trader, when rates increase, will only be able partly to recoup himself by a rise in prices. The burden in this case will have to be shared between the trader and the consumer. The more rates are increased, the greater will be the advantage given to our foreign competitors. It may quite possibly happen, that a constant increase in rates might ultimately jeopardise the very existence of many branches of industry, in which there is a close competition between the home and the foreign producer.

It may, in conclusion, be desirable to trace the incidence of rates when imposed upon such undertakings as railways and gas and water-works. Nothing can be more anomalous and confused than the methods adopted for levying rates upon these undertakings. It has been already stated that rates are levied upon the annual letting value of business premises, and not upon the profits

*Incidence  
of rates on  
railways,  
&c.*

realised from the business. In the case of railways and water-works, rates are levied by an absolutely unintelligible process. They are, in a certain rough way, imposed upon the profits realised. The laws of rating, so far as this kind of property is concerned, are simply a mass of heterogeneous and contradictory jargon, which no amount of human ingenuity can interpret. A late eminent judge, in giving his decision in a dispute arising from the rating of some water-works, declared it to be impossible to reconcile or to understand the various contradictory Acts of Parliament which bore upon the subject. We must, however, forbear from pursuing this branch of the subject at greater length; for the object we have in view is rather to trace the incidence of rates than to adduce instances to prove how imperatively our entire system of local finance and administration requires fundamental reform. The rates which are imposed on railways are usually supposed to be a charge upon railway travellers, and not a charge upon the proprietors of railway stock. Some valid reasons, however, may be adduced for arriving at a different conclusion. It will be scarcely denied that there is a certain point at which railway fares might be fixed, so as to return the maximum profit. Railway managers very likely have hitherto failed to discover this point. Some competent authorities assert that the profits of railways would be greatly increased if existing fares were considerably reduced. But whether this should ultimately prove to be so or not, the fact still remains, that as railways are ordinary commercial undertakings primarily administered for profit, the facilities which are offered for the conveyance of goods and passengers, so far as fares and accommodation are concerned, are such as will, in the opinion of directors and managers, yield the largest amount of profit. Bearing this in mind, let it be supposed that, in consequence of an increase of local rates, an extra charge is thrown upon a railway. We have, therefore, simply to inquire whether the railway proprietors will be able to recoup themselves for this extra charge by increasing the fares for goods and passengers. It certainly seems that such a question admits of but one answer. If fares could with advantage be raised after the extra rates were imposed, why were they not raised be-

fore? The original amount at which these fares were fixed was supposed to indicate a point at which the maximum of profit would be realised. How, then, can it be imagined that an increase of rates would prompt railway proprietors to raise their fares, or, in other words, to do that which would lead to a reduction in their profits? Hence it follows that local rates diminish the profits of railway shareholders, and any imperial tax levied on railways, such as the railway passenger duty, has the same effect. In corroboration of this view it may be mentioned that when the railway passenger duty was reduced in 1883, there was at once a general rise in the value of railway shares.

From analogous considerations it follows that rates imposed upon water-works and gas-works represent a charge upon the profits of these undertakings. There is a certain price which will yield a maximum of profit; and, consequently, a rise in price, instead of providing compensation for an increase of rates, would simply tend to reduce profits. It not unfrequently happens, however, that when an Act of Parliament is obtained for the construction of gas and water-works, the proprietors are prohibited from appropriating to themselves a dividend of more than a fixed amount, generally 10 per cent. When this maximum dividend has been reached, it is evident that rates are solely a charge upon the consumer, because if there were no rates there would be so much more of extra profits, to appropriate to a reduction in the price of gas and water. In those cases where gas and water-works are owned by a municipality, there can be no object in rating them at all. If they are made to pay rates, it is simply taking money out of one pocket and putting it into another.

There is one peculiar injustice associated with the present method of levying local taxation, upon which it is desirable to make a few remarks. It will be seen that the inequality to which we refer presses with particular severity upon the leasehold occupiers of dwelling-houses and business premises. It is, as we have shown in the last Chapter, a prominent characteristic of local finance in this country, that the aggregate local expenditure each year exceeds by many millions the aggregate amount

BOOK IV.  
CH. VII.

*Injustice to lease-holders in compelling them to pay for improvements the value of which is appropriated by the owners.*

which is raised by local taxation and by grants from the imperial exchequer. This excess of expenditure over revenue, which often amounts to more than 10,000,000*l.*, has to be met by raising loans upon the security of the rates. It is surprising that the amount of local indebtedness, which is being rapidly accumulated throughout the country, has hitherto attracted so little notice. It has often happened in recent years that the imperial revenue has exceeded the expenditure by 3,000,000*l.* or 4,000,000*l.* a year; and yet we persistently ignore the fact, that the addition which is each year made to our local indebtedness greatly exceeds any diminution which is effected in our national obligations. Every facility seems to be given to local authorities to get into debt, and what makes the matter still more serious is, that the circumstances under which these loans are contracted are frequently involved in inextricable confusion. This system of constantly borrowing is often justified upon the plea that the money is devoted to works of permanent improvement. But it is sometimes difficult to discover whether a portion of these loans is not occasionally applied to purposes which ought to be defrayed out of ordinary revenue. Again, it is frequently urged in defence of this system of borrowing for works of permanent utility, that at the time the loans are contracted arrangements are entered into which will secure the repayment or redemption of the loan in a certain limited period. Thus, if 500,000*l.* is required for the carrying-out of a new system of drainage, or for the construction of water-works, the money is raised either in the form of terminable annuities, or, which comes to the same thing, the local authorities consider that the loan involves a charge of six or seven per cent., and the amount of this interest above the current rate is devoted to the creation of a sinking fund, which will enable the loan to be paid off in a certain period, say twenty-one years. It is easy to show that this arrangement, instead of constituting a defence of the present system, is essentially unjust. If 500,000*l.* is, as we have supposed, raised for drainage purposes, or for water-works, let us inquire what will take place if the loan is paid off in twenty-one years, seven per cent. interest being charged upon it during the period. The loan will obviously, upon this

hypothesis, throw upon the rates, during a period of twenty-one years, an additional charge of 35,000*l.* a year. Suppose that just previous to the time when this loan was contracted, a man takes a lease of a house or of some business premises for twenty-one years. During the entire period of the lease he will be obliged to contribute his share to the extra charge thrown upon the rates by this loan. At the expiration of the lease, this improvement, which has cost 500,000*l.*, is paid for. The owner of the leasehold property has not contributed a single shilling to the amount, although his property is permanently improved by the expenditure. The tenant will probably find at the expiration of the lease that his rent is raised in exact proportion to the extent to which the property has been improved. The landlord will be able to say, "You paid me 60*l.* before, but the house is well worth 65*l.* or 70*l.*, now that the town has been so well drained, and now that there is a constant supply of water almost free of charge." Of what avail will it be for the tenant to plead that it is he and not the landlord who has paid for the drainage works and the water? Sooner or later, of course, just such a rent will be charged for the house as the house is worth. The wrong which is in this way inflicted on leasehold tenants is so entirely indefensible, that it seems impossible to understand how it has been so quietly submitted to. Urban occupiers, at least, have the remedy in their own hands. They are the majority of the ratepayers, and it rests with them to determine whether loans should be raised at all, and if raised, under what conditions they shall be contracted. Loans raised upon the security of county rates are in a somewhat different position, because the county magistrates, being a non-elective body, are not subject to the ratepayers' control. It is however to be observed, that by far the greater portion of the loans has been raised, not in rural, but in urban districts, and it is to this circumstance we must partly attribute the fact to which we have already alluded, that rates are now, on the average, in the towns, nearly twice as high as they are in the country.

THE END.





## INDEX.

- Aggregation of land in England, 199  
 Agricultural, produce tends to become increasingly costly with increased demand, 74, 79, 145, 313, 464; labourers, poverty of, in England, 151, 192; Holdings Act (1875), 218, 222; (1883), 221; Commission (1882), 219 n.; land of England, estimated value of, 283; improvements, effect of, on price of food and on rent, 826, 466  
 Agriculture, cooperation and copartnership applied to, 253, 271  
 Allotment gardens, effect of, on wages, 285  
 Allowance system, the evils of, 580  
 Annuities, Government, 592  
 Arbitration, boards of, 248  
 Arch, Mr Joseph, effect of his efforts to form agricultural unions, 193 n.  
 Artisans', Labourers' and General Dwellings Company, 276  
 Assington, cooperative agriculture at, 271  
 Babbage, on division of labour, 55  
 Bagehot, Walter, on rapid transfer of capital to exceptionally profitable trades, 162 n.  
 Bank Charter Act, 431, 441; temporary suspension of, 443  
 Bank notes, 430, 436; bank note circulation of Great Britain, 436  
 Bank of England, position and privileges of, 430, 441, 446  
 Banking, cooperation applied to, 273  
 Barter, as a method of exchange, 313  
 Baxter, Dudley, on national debts, 140, 567  
 Baxter, Rt Hon. W. E., on cooperation, 253  
 Bentham's proposal for exemptions from the income-tax, 539  
 Bills of exchange, 864, 412, 439, 433  
 Bi-metallism, 355  
 Boarding out, the system of, 602  
 Boards of arbitration, 248  
 Bonding houses, 549  
 Book credits, 435  
 Bounties on exports, 375  
 Brassey, Sir T., on cost of labour in different countries, 48; on wages, 133, 136, 137  
 Bronze coinage, 353, 356  
 Building Societies, 276, 294  
 Business premises, incidence of local rates on, 615  
 Cairnes, on effect of gold discoveries, 60; on the wages-fund, 130; on increase of population in Ireland, 142; on economic defects of slavery, 301; on the gold discoveries, 481  
 Canons of taxation, Adam Smith's, 515  
 Capital, a requisite of production, 11, 45; definition of, 17, 29; glut of, 26; fixed and circulating, 39; productiveness of, 49; increase of, 81, 175; attracted by exceptionally high profits, 153, 337; effect of export of, 178  
 Cheques, a substitute for money, 364, 430, 432, 437  
 Chinese, poll tax on, in Australia, 89  
 Coal, rise in price of, in 1872-4, 183, 329  
 Colonisation, Wakefield on, 59  
 Combination of labour, 58  
 Commercial treaties, 394  
 Commercial panics, 441, 443  
 Commons, enclosure of, 236

- Competition, effect of, on wages, 110, 151, 337; on profits, 162, 165, 337; on rent, 118, 323  
 Conacre, 215  
 Consolidated Fund, increasing tendency to throw local charges on, 604, 610  
 Consumption, productive and unproductive, 15; unproductive, diminishes wealth, 22  
 Conversion of circulating into fixed capital may injure labourers, 41  
 Cooperation of labour, simple and complex, 58  
 Cooperation applied to farming, 200, 253, 271; as a remedy for strikes, 249; principles of, defined, 254; hindered in England by legislation, 274; aided by the State in France, 290  
 Cooperative Stores, 67, 255, 258; Rochdale Pioneers, 256, 274; Wholesale Society, 262; production, 265, 269; banking, 273  
 Copartnership, 249; adopted by M. Leclaire, 250; by Messrs Briggs, 252; by Messrs Crossley, 252  
 Cost of carriage, in international trade, 378, 394  
 Cost of labour, Sir T. Brassey on, 48; as affected by education, 48; J. S. Mill on, 170, 173; as affected by price of agricultural produce, 465  
 Cost of production, in its relation to value or price, 335  
 Cottiers, the Irish, 203, 213  
 Cotton famine in Lancashire, 167  
 Cotton trade, activity in the, 154, 162, 336  
 Credit, in retail trade disadvantageous, 259; definition of, 422; aids the production of wealth, 425; influence of, on prices, 429, 433; various forms of, 429; as a means of increasing purchasing power, 433; as a means of speculation, 439  
 Credit banks in Germany, 273  
 Currency, the silver and bronze, of England, 356, 405; gold, 354, 363; convertible and inconvertible, 442, 446, 449  
 Custom and competition as controlling rent, profits and wages, 109  
 Debt, the English National, 32, 33  
 Debts, vast increase of National, 140  
 Demand and Supply, as regulating wages, 131, 245; as regulating prices, 317, 340; as regulating value of gold and silver, 366; equalisation of, in international trade, 379  
 Demand, for commodities, not a demand for labour, 21; effectual, defined, 317  
 Depreciation in value of silver, 493; report of Parliamentary Committee on, 497  
 Depreciation of gold, 352, 478, 481, 484  
 Depression of trade, effect of, on profits and wages, 165, 166  
 Derby, Earl of, on agriculture, 219  
 Devon's, Earl of, Irish land commission (1845), 215  
 Difficulty of attainment, an element of value, 319  
 Diminishing productiveness, law of, 74  
 Division of labour, 51; Adam Smith on, 51; J. S. Mill on, 52; Babbage on, 55  
 Dorsetshire labourer, condition of, 151  
 Double standard, disadvantages of, 354, 508; as adopted in France, 357  
 East's Act, 580  
 Education Act (1870), 193 n., 233 n., 601  
 Education, effect of, on cost of labour, 48; on wages, 230; on efficiency of labour, 231; on crime, 232; on intemperance, 233; on pauperism, 233; free, 104, 299, 601  
 'Effectual Demand,' definition of, 317  
 Elizabethan Poor Law, the, 578  
 Emancipation of serfs in Russia, 200  
 Emigration, beneficial effect of, 144, 235; cannot be regarded as a permanent remedy for over-population, 146; State aided, 602  
 Emigration of Chinese to Australia, 89  
 Enclosure of commons, 236  
 English shipping trade, predominance of, 403  
 Exports and imports, of England, increase of, 132, 484; tend to an equality, 401

- Exports, of England permanently less than her imports, 402; of India permanently exceed her imports, 404
- Export of capital, effect of, on wages and profits, 178, 466
- Factory Acts, the, 593
- Farming, large and small, 67, 181; how to combine the advantages of, 200; cooperative, 253, 271
- 'Favourable' and 'unfavourable exchange,' meaning of these terms, 415
- Franco-German war, economic effects of, 80, 86, 201
- Free education, 104, 299, 601
- Free trade, in corn, 76, 560; effect of, in reducing price of food, 79, 135, 561; in absorbing the new supplies of gold, 483; carried by Sir Robert Peel, 134; benefits of, 391, 558
- Free trade and protection in Australia, 563
- Friendly Societies, 238
- Foreign commerce, 312, 374; benefit of, to consumers, 389
- Foreign loans, effect of, on accumulation of capital, 85
- Fourier, 99, 101
- George, Mr Henry, on condition of labouring population, 133; on nationalisation of the land, 280, 282
- Germany, demonetisation of silver in, 487, 495, 507
- Giffen, Mr Robert, on value of agricultural land of England, 283
- Gilbert's Act, 580
- Gladstone, Rt Hon. W. E., reduces duty on light wines, 366, 547
- Gold, discoveries, effect of, in Australia, 60; advantages of employing, to fulfil the functions of money, 351; discoveries, effect of, on value of gold, 352, 478, 481, 484; used in manufactures, 362; circumstances which regulate the demand for, 363; transmitted as ordinary article of commerce, 406, 421; fluctuations in value of, 479
- Goschen, Rt Hon. G. J., on the appreciation in value of gold, 479, 487
- Government Annuities Act, 592
- Grants in aid of wages, evils of, 580
- Henley, Mr, on condition of Northumbrian peasants, 594
- Houses, incidence of rates on, 618
- Ignorance, effect of, in keeping wages low, 151
- Importation of food, effect of, on price of agricultural produce and on rents, 326
- Imports and exports, of England, increase of, 132; tend to an equality, 401
- Imports of England permanently in excess of her exports, 402; of India permanently less than her exports, 404
- Incidence of taxation, 535; of local taxation, 606, 611, 613, 619
- Income-tax, 523; different effects of, when paid out of income and when paid out of capital, 37, 535; objections to a graduated, 534, 540; unsuited to India, 537; exemptions, 539
- Inconvertible currency in U.S.A. and in England, 446; in France, 449
- India, economic condition of, 86, 404, 510; decline in the demand of, for silver, 497
- Indian Salt-tax, 39, 83; Land-tax, 281, 509; 'Home Charges,' 499
- Indirect taxes, 544
- International Society, the, 279
- International trade, 374
- Interest, rate of, affects saving, 84; remains constant at same time and place, 159; variations in rate of, 451, 456
- Irish Land Act (1881), 202, 217, 285; (1870), 216
- Irish Land tenure, 202—213, 215; Commission (1845), 215
- Jevons, on effect of the gold discoveries on prices, 481
- Joint-stock Banks in London, amount of deposits in, 426 n.
- Joint-stock Companies, effect of, in creating capital, 66-7; 261
- Labour, a requisite of production of wealth, 12, 44, 47; productive and unproductive, 13; productiveness of, varies in different countries, 48;

- division of, 51; efficiency of, promoted by education, 233
- Labour saving machinery, in U.S.A., 138; effect of, on wages, 137
- Lancashire cotton famine, 167
- Land Acts, Irish, 202, 216, 217, 285
- Land, a requisite of production, 11, 46; varies greatly in productiveness, 73, 114
- Land laws in England, 189, 285
- Land reform in England, 286
- Land tax, in India, 281, 509, 571; in England, 572
- Land tenure in Ireland, 202-3
- Lassalle, 278
- Latin Monetary Union, 495
- Law of the increase of land and labour, 71, 77; of diminishing productiveness, 74; of the increase of capital, 81
- Laws, to regulate wages, 223; to regulate length of a day's work, in U.S.A., 225; to regulate length of a day's work, advocated in France, 226
- Leclaire's co-partnership scheme, 250
- Legal tender, 357, 430, 447
- Leicester, Earl of, on agriculture, 219
- Life insurance, State aided, 294
- Liverpool, local finance of, 598
- Loans, effect of, on increase of capital, 83, 85, 85; for public works in India, &c., 34; compared with increased taxation, 37
- Local expenditure of Great Britain and Ireland, 596
- Local finance, complexity of, 600
- Local revenue, of London, 596; of Liverpool, 598, 602
- Local taxation, Mr Palgrave on, 595, 609; Mr Purdy on, 609
- Local taxes on commodities, 606
- London, local finance of, 596, 607
- Machinery, opposition of labourers to, 43, 241
- Malthus on Population, 141, 175
- Margin of cultivation, 119, 125, 324
- Marshall, Mr and Mrs, on Trade Societies, 243; on the Schulze-Delitzsch credit banks, 274
- Martineau, Harriet, on physical suffering caused by protection, 134
- Mercantile system, 8, 375, 416
- Metayers, 97, 208
- Metropolitan Poor Act, 587
- Migration, of capital, 337, 162; of labour, beneficial effects of, 235
- Mill, John Stuart, definition of productive labour, 12; on the wages-fund controversy, 129; on Ricardo's doctrine that rate of profit depends on wages, 169; on cost of labour, 170-173; on peasant proprietors, 181; on protection in a young country, 563; on the unearned increment, 285; on exceptionally high rate of discount for foreign bills of exchange, 419; on effect of speculation on prices, 439; on over-production, 476; on the income-tax, 539
- Mineral produce, laws governing value of, 322, 327
- Mining industry highly speculative, 482, 491
- Mint, regulations of the, with regard to coinage, 356, 359, 405 n.
- Money, functions of, 313, 347; different substances used as, 346; qualities desirable in substance selected to be used as, 349; value of, 358
- Morley, Mr John (Life of Cobden), on physical suffering caused by protection, 134
- National debts, 32, 567; national debt of England, method of reducing, 568
- Nationalisation of the land, 105, 279; as advocated by Mr Henry George, 280, 282; by Mr A. R. Wallace, 280
- National poor rate, objections to a, 590
- Natural price, 328
- Natural rate of profit, 161, 337
- Oldham, cooperative cotton mills at, 266
- Over-production, meaning of, 473
- Owen, Robert, 99, 103
- Palgrave, Mr R. H. I., on local taxation, 595, 609, 610
- Panics, commercial, 441, 443
- Paris, cooperative production in, 370
- Pauperism, cost of, under the old Poor Law, 583; in England, Scotland and Ireland compared, 586

- 589; in various English Unions compared, 589; increased by interference with women's labour, 592
- Peasant proprietors, 107, 180, 194; cultivators, 108; aided by the State, 291
- Peel, Sir Robert, the fiscal reforms of, 183; author of the Bank Charter Act, 441
- Permanent settlement, the, in India, 281, 510
- Political Economy, definitions of, 4, 45
- Poll-tax on Chinese in Australia, 89
- Poor Law, socialistic elements in the, 101, 297; checks on population, 229; origin of, in England, 576; the Elizabethan, 578; Commission, 581; the New, 582, 585; evil effects of the old, 582; the Irish and Scotch, 586; advantages of a, 591
- Poor rate, objections to a national, 590
- Poor rates, incidence of, 545
- Population, increase of, in Victoria, 73; effect of increase of, on cost of agricultural produce, 75, 79, 125, 326; in raising rents, 125, 326; on wages, 186, 177; Malthus on, 141, 175; Cairnes on increase of, in Ireland, 142
- Price, definition of, 312; commodities divided into three classes in respect of their, 315; of commodities absolutely limited in quantity, 316; of agricultural and mineral produce, 322, 361; of agricultural produce not influenced by rent, 127, 325; of manufactured commodities, 333, 339; of gold, 359; as affected by cost of production, 335; influenced by credit, 429, 433, 488; as influenced by speculative purchases, 439
- Primogeniture, English law of, 189
- Private property, rights of, 96
- Production, requisites of, 10, 44; on large and small scale, 63
- Profits consist of three elements, 157; natural rate of, 161; effect of competition on, 162, 322; how far dependent on wages, 168; why higher in some countries than in others, 453; relation of, to prices, 460; tend to diminish as a nation advances, 465
- Profit-sharing, Mr Sedley Taylor on, 249 n.
- Protection, abandoned in England, 183; the theory of, 558; Mr D. A. Wells on, in U. S. A., 565
- Public Works Loan Commissioners, functions of, 288
- Public Works, construction of, by the Government, 288
- Purdy, Mr, on incidence of local taxation, 609
- Rack-rents, 113, 205, 213
- Railways, incidence of local rates on, 519
- Rate of interest, affects saving, 84; how connected with price of land, 454; varies in different countries and at different times in the same country, 451, 456
- Rate of profit varies in different countries, 119; in different trades, 161
- Rates, incidence of local, 607, 611, 613
- 'Reciprocity', fallacies of, 393
- Rent, Ricardo's theory of, 74, 114, 170, 324; as controlled by competition, 113, 323; by custom, 97; how affected by agricultural improvements, 121; by variations in rates of wages and profits, 123; by increase in population, 125; a portion of, consists of interest on capital spent in improvements, 126; not an element in the price of agricultural produce, 127, 325
- Ricardo's theory of rent, 74, 114, 170; objections to, 115; implies the existence of active competition, 128
- Ricardo on profits and wages, 168
- Rochdale Pioneers' cooperative stores, 256; cooperative production at, 265
- Salt-tax in India, 39, 83
- Saving, affected by rate of interest, 84, 463; by 'effective desire of accumulation,' 82, 462; by habits of thrift and foresight, 82
- Savings Banks, 195, 297, 592
- Schulze-Delitzsch, Herr, the founder of cooperative banking, 273, 279
- Serfs, emancipation of, in Russia, 200
- Settled Land Act (1882), 190

- Settlement, Laws of, 581  
 Shaftesbury Park Estate, 277  
 Shipping trade of England, predominance of, 408  
 Sidgwick, Mr Henry, on wages-fund controversy, 181 *n.*  
 Silver, as fulfilling the functions of money, 351; recent increase in annual supply of, 352, 488, 494; coinage in England, 356; effect of demand for, on value of gold, 486; demonetised in Germany, 487, 495, 507; depreciation in value of, 493; decline in demand for, 497; plate, amount annually manufactured in England, 496  
 Sismondi on metayers, 212  
 Slavery, economic effects of abolition of, in West Indies, 88; economic defects of, 108, 301  
 Slave labour, Hon. C. Clay on, 307  
 Smith, Adam, Wealth of Nations, 8, 375; on division of labour, 51; on causes of different rates of wages in different employments, 147; on laws of settlement, 581; on bounties on exports, 375; mistaken as to connection between profits and prices, 460; on taxation, 514, 546  
 Socialism, 98; State-aided, 279  
 Soetbeer, Dr, on relative value of silver and gold, 501  
 Specie payments resumed in U. S. A. and Italy, 487, 496; suspension of, in England, 446; in France, 449  
 Speculation, promoted by credit system, 439  
 Standard of value, 353  
 State aided, socialism, 279; public works, 288; industry, 289; co-operation, 290; peasant proprietors, 291; industrial dwellings, 292; life insurance, 294; emigration, 602  
 State-ownership of land in India, 281; in Australia, 281  
 'Stationary State,' the, 467  
 Statute of labourers, 224  
 Strikes, 238, 241; influence of, on wages, 242; involve great loss of wealth, 247; due to antagonism of interest, 248  
 St Simon, 99, 100  
 Substitutes for money, 364  
 Taylor, Mr Sedley, on copartnership or profit-sharing, 249 *n.*  
 Taxation, canons of, 515; general principles of, 513; incidence of, 584; local, 595  
 Taxes on income, 37, 523; objections to graduated, 584, 540  
 Taxes on raw material, 39, 552; on commodities, 531, 544; on exports, 553; can seldom be made *ad valorem*, 546, 606; on imports, 557; for the purpose of reducing debt, 567  
 Telegraph drafts as instruments of credit, 432  
 Tenant right in Ulster, 216; in England, 217  
 Tenants' Compensation Act (1883), 285  
 Tendency of exports and imports to an equality, 401  
 Thornton, W. T., on the wages fund, 129; on peasant proprietors, 181  
 Tithe Commutation Act, 122, 574  
 Tithes, 573  
 Tooke's History of Prices, on effect of speculative purchases on prices, 440  
 Trades Unions, their influence on wages, 155, 193, 238, 245; Royal Commission on (1869), 238, 251, 274; formerly opposed machinery, 241; formed by employers as well as by employed, 246  
 Treaties, commercial, 394  
 Turgot on metayer tenures, 209  
 Ulster tenant right, 216  
 Unearned increment, doctrine of the, 285  
 Union Chargeability Act, 586  
 Utility in its relation to value, 319  
 Vagrancy, Acts to suppress, 577  
 Value, definition of, 311; commodities divided into three classes in respect of their, 315; of commodities of which supply is absolutely limited, 316; of agricultural and mineral produce, 322; of agricultural produce not influenced by rent, 127, 325; of manufactured commodities, 333, 339; as affected by cost of production, 335; of silver and gold compared, 501

- Wages, as influenced by demand and supply, 181, 245; Sir T. Brassey on, 48, 183, 186, 187; have not increased proportionally with the increase of wealth, 185; effect of increase of population on, 136, 145, 177; of machinery on, 137; of export of capital on, 139; of warlike expenditure on, 140; depend on ratio between labouring population and wages fund, 146; causes of variation in, in different employments, 146; in different localities, 150; influence of commercial prosperity on, 153—336; of Trades unions on, 155, 238, 243; of legislation on, 223; of national education on, 230; of allotments on, 235; of competition on, 110, 243; of women depressed by out-door relief and by legislative interference with their labour, 592
- Wages-fund, controversy on the, 129
- Wakefield, on combination and co-operation of labour, 58; on theory of colonisation, 59
- Wallace, Mr A. R., on nationalisation of the land, 280
- Wars, rapidity with which nations recover from losses caused by, 80; should they be paid for by increased taxation? 82
- Wealth of Nations, by Adam Smith, 8, 375
- Wealth, the subject matter of political economy, 4; definition of, 6
- Wells, Mr D. A., on protection in U. S. A., 565
- Wheat, price of, in England, 76
- Wholesale Cooperative Society, 262
- Workhouse test, the, 579
- Young, Arthur, on peasant proprietors, 181, 183, 186; on metayer tenure, 206
- Zincke, Rev. Barham, on peasant proprietors, 188 n.





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